TOWARDS AN EQUITABLE HOUSING AND WELFARE POLICY: THE PAST AND FUTURE OF FEDERAL GOVERNMENT INTERVENTION

by
Julie McCabe

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Abstract

This paper examines the historic and present obstacles for achieving social mobility in the United States, especially for African-Americans. It examines federal welfare and housing policy from the New Deal to present day and finds that federal efforts to improve the social and economic outcomes for low-income people have been undermined by racial discrimination, devolution of authority to the states, an imbalanced tax code, and ineffective housing policy. This paper recommends improving low-income social mobility through tax and policy reforms and new federal programs centered on a federal job guarantee and an asset-based approach to welfare.

Thesis Reviewers: Dr. Jacob Straus, Marilyn Serafini, Dr. Kathryn Wagner Hill and Dr. Collin Paschall

Dedication

This paper is dedicated to my family. I am eternally grateful for your love and support. Thank you to my husband, Matthew Campbell, daughter, Griffin, future son, Jack. Thank you to my parents, Joan Griffin McCabe and Jim McCabe. Thank you to my sisters, Kate McCabe and Maggie McCabe. I am lucky to have you all in my life and in this academic journey.

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Introduction

At the end of World War II, William Griffin returned home from serving in the Pacific Front for the United States Army. In his first years back, Griffin finished his bachelor's degree from Loyola University and married his high school girlfriend, Jane Griffin. At the beginning of their married life, the couple bought their first house on Taylor Avenue in Oak Park, Illinois. They lived there and had four children while Griffin worked as a police officer and detective in downtown Chicago. While working for the police department, Griffin earned his legal degree at night from DePaul University and would eventually become a lawyer for the city of Chicago. As their family grew, the couple sold their first home and moved to a new development further into the suburbs. They received help for the downpayment from Jane's parents in order to build their new home, expansive enough for their now fully grown family of nine. Griffin would continue to live in the house he and Jane built in the Chicago suburb of Inverness for thirty years raising their family, until he passed away in 1989.

This brief life story is my grandfather's and while it is missing many details of his life including his personal hardships and triumphs, it is also emblematic of a certain privilege. William Griffin was white and his racial privilege in so many ways enabled him to lead a comfortable and successful life. Because of his skin color, Griffin was able to attend three institutions of higher education as they simultaneously denied entry to millions of African-Americans. He was able to use the postwar G.I. Bill to afford his graduate degree program, when thousands of black WWII veterans, especially southern-born, were denied access to college due to local resistance and institutional barriers.[1] He was able to move his family within Cook County, Illinois with

[1] Sarah Turner and John Bound, "Closing the Gap or Widening the Divide: The Effects of the G.I. Bill and World War II on the Educational Outcomes of Black Americans" (National Bureau of Economic Research, June 2002), https://www.nber.org/papers/w9044.pdf, 18-19.

ease when hundreds of racial covenants restricted the free movement of non-whites.[2] To that end, he was able to secure home loans when financing for black families was severely restricted due to government condoned redlining which persisted through the late 1960s.[3]

Additionally, he and my grandmother were able to start their life in homeownership with a gift from my great-grandparents, which reflects a larger reality surrounding racial gaps in inherited wealth.[4] Finally, in the course of my grandfather's life, he experienced no employment discrimination and was able to secure a middle-class job with a career ladder. In stark contrast, African-Americans have been systematically discriminated against or outright denied employment in high-wage occupations since America's founding and through the present day.

This snapshot of a life is meant to illustrate the myriad points of privilege white Americans have enjoyed over their black and brown counterparts, frequently with the aid of government programs. The stepping stones of the American Dream have thus never been equally available to people of color while the economic benefits given to whites have transferred to their offspring, generation after generation. The purpose of this thesis portfolio is to understand how federal policies, specifically with regard to welfare and housing, have unequally provided opportunities to white people while inhibiting the social mobility of African-Americans. This portfolio also offers recommendations for how the federal government can reform major tenets of its welfare and housing policy. Through an inclusive assets-based approach, these recommendations include 1) investing in low-income savings programs known as Individual Development Ac-

[2] "Racial Restriction and Housing Discrimination in the Chicagoland Area," Digital Chicago (Lake Forest College, 2018), https://digitalchicagohistory.org/exhibits/show/restricted-chicago/chicago-map.

[3] Richard Rothstein, *The Color of Law: a Forgotten History of How Our Government Segregated America*. New York: Liveright Publishing Corporation, a division of W.W. Norton & Company, 2018, 107-108.

[4] Fabian T Pfeffer and Alexandra Killewald, "Generations of Advantage. Multigenerational Correlations in Family Wealth" (Oxford University Press on behalf of the University of North Carolina at Chapel Hill, February 7, 2018), https://scholar.harvard.edu/files/akillewald/files/generations_of_advantage.pdf, 21-22.

counts to promote homeownership and 2) increasing the federal minimum wage to enable greater personal savings.

The three portfolio papers here employ a variety of research methods and materials. The first chapter discusses the historical causes and consequences of the welfare policies of four influential presidents: Franklin Delano Roosevelt, Lyndon Baines Johnson, Ronald Reagan, and Bill Clinton. In this case study format, a historical explanatory and evaluative approach is undertaken. The second content chapter discusses two of the federal government's major housing policies: the mortgage tax deduction and the Section 8 Housing Choice Voucher program with respect to their impact on homeownership rates using the policy evaluative model. The third and final chapter, analyzes individual development accounts and the federal minimum wage and provides recommendations for reform and expansion, utilizing the policy prescriptive model. In each chapter, primary source government data from Temporary Assistance for Needy Families, Assets for Independence, Section 8 Housing Choice Voucher annual reports are reviewed. In addition, secondary sources from leading scholars, think-tanks, and nonprofits are invoked to provide necessary research insights and commentary.

Before going into more detail as to the outline of the thesis portfolio, it is useful to better understand the nature of the research problem itself. Focusing on the 20th century period, this paper investigates several federal housing and welfare policies and their differential impact on people's abilities to become socially mobile and accumulate wealth. The term social mobility is used here as an individual's ability to improve their class status by moving into a higher income group. Wealth is defined as one's total assets minus their debts; it is importantly distinguished from income which is the sum of one's wages. Bearing in mind that class status varies by regional cost of living and family size, it is useful to review the range of household incomes for each class group. The income range considered middle class for a family of three as of 2018 was between $45,200 to $135,600. The range for upper-class families was over $135,000 and the range for lower-class families was below $45,200.[5] Over the past half century, severe gaps in both income and wages have resulted in a diminished ability to climb the class ladder for people of color especially. This paper posits that federal housing and welfare policies have caused and exacerbated these class and racial disparities while promoting policies which reify class and racial privilege.

The issues of income and wealth inequality in the United States are among the most acute in the world. A 2015 report from the Organisation for Economic Co-operation and Development (OECD) found that the richest 10 percent of American households earned about 28 percent of the country's income. Worse than the income stratification though is the wealth divide, with the top 10 percent of U.S. households owning 76 percent of all national wealth.[6] After only three years, as of 2018, the U.S.'s wealth disparities deepened further with the richest 10% of households owning 79% of total wealth.[7] Decades in the making, from the roughly three decade period of 1989-2016 the wealth gap between America's richest and poorest families more than doubled.[8] As later chapters will explain in more detail, the racial wealth gaps which exist in the U.S. are

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[5] Rakesh Kochhar, "The American Middle Class Is Stable in Size, but Losing Ground Financially to Upper-Income Families" (Pew Research Center, September 6, 2018), https://www.pewresearch.org/fact-tank/2018/09/06/the-american-middle-class-is-stable-in-size-but-losing-ground-financially-to-upper-income-families/, 1

[6] Christopher Ingraham, "If You Thought Income Inequality Was Bad, Get a Load of Wealth Inequality," The Washington Post (WP Company, May 21, 2015), https://www.washingtonpost.com/news/wonk/wp/2015/05/21/the-top-10-of-americans-own-76-of-the-stuff-and-its-dragging-our-economy-down/, 1.

[7] Carlotta Balestra, "Inequalities in Household Wealth across OECD Countries: Evidence from the OECD Wealth Distribution Database," June 20, 2018, https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=SDD/DOC(2018)1&docLanguage=En, 14.

[8] Horowitz et al., "Trends in U.S. Income and Wealth Inequality," 1.

startling as well, with the most recent data showing that the median net worth of a white family is nearly ten times more than that of a black family, or $171,000 compared to $17,150.[9]

The persistence of income and wealth gaps is a root cause of social immobility, contributing to intergenerational poverty and undermining the egalitarian principles of the American Dream. At the end of the day, this means that the family you are born into and their relative wealth status has a significant bearing on your lot later in life. For instance, if you are born into a high-wealth family today, you are over six times more likely to become a high-wealth adult than a child born into a low-wealth family. Conversely, this also means that children born into low income distributions are much more likely to stay there than to ascend. Research shows that over 41 percent of children living in households in the bottom quartile stay there as adults and less than 9 percent reach the top quartile by adulthood. In contrast, 76 percent of children born into households at the top wealth quartile remain in the top half of the overall distribution by adulthood, with the majority of this group remaining at the very top.[10]

Beyond the entrenched class obstacles which exist in society overall, examining racial demographics reveals that the path towards upward mobility becomes even more impenetrable and volatile for black individuals. For instance, African-Americans born into the lowest income households have a 44 percent chance of remaining there as adults, compared to 41 percent overall. And 75 percent of African American children born into families at the bottom of the wealth distribution are likely to stay in the lower half as adults, compared to 54 percent for whites. Taken together, while the poorest whites have a nearly 50-50 chance of ascending from the bottom

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[9] Kriston McIntosh, Emily Moss, Ryan Nunn, and Jay Shambaugh, "Examining the Black-White Wealth Gap." Brookings, February 27, 2020. https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/, 1.

[10] Dalton Conley and Rebecca Glauber, "Wealth Mobility and Volatility in Black and White" (Center for American Progress, July 2008), https://cdn.americanprogress.org/wp-content/uploads/issues/2008/07/pdf/wealth_mobility.pdf, 10.

quartile to the top half of the wealth distribution, blacks only have one in four odds.[11] Over the lifespan, the likelihood of upward mobility for black Americans continues to prove more elusive than for whites. White adults aged 25-45 years old living in the bottom wealth quartile, had a 44 percent likelihood of remaining there 20 years later; for black adults, this likelihood was over two in three, or 68 percent.[12] Not only is it harder for black children and adults to become upwardly mobile compared to their white counterparts, black families have a much harder time holding onto their wealth.

In fact, African-Americans and American Indians experience the highest rates of downward mobility of all racial groups. Compared to white children, black children decline in terms of relative wealth by approximately 13 percentiles, regardless of their parents' starting wealth status. This figure holds true for black children born in the top 1 percent of the wealth distribution. When compared to white children born at the top of the income distribution who are five times as likely to stay at the top than fall to the bottom, black children have one in two odds of falling to the bottom. What this reveals is that even black children from high-income or high-wealth families are not insulated from the overall downward mobility experienced by blacks as a racial group.[13]

The black-white disparities in social mobility and wealth can be traced to disparities in inherited wealth as well. Inheritances include transfers of cash, businesses, homes and other real estate. According to survey data of 5,000 households from the 1999-2007 period, it is estimated that racial differences in inheritances accounts for twelve percent of the black-white wealth

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[11] Conley and Glauber, "Wealth Mobility and Volatility," 12.

[12] Conley and Glauber, "Wealth Mobility and Volatility," 18.

[13] Raj Chetty et al., "Race and Economic Opportunity in the United States: An Intergenerational Perspective" (National Bureau of Economic Research, December 2019), https://www.nber.org/papers/w24441.pdf, 3.

gap.[14] This inheritance factor can be attributed to vast differences in the incidence and sum of inheritances received in black and white families. Recent data from 2016 show that white households (aged 30-59) are much more likely to receive inheritances compared to black households; twenty-three percent compared to nine percent respectively. The amounts inherited vary widely as well, with the inheritance of white families averaging $246,000 compared to $107,000 for black families.[15] Inherited wealth is important to attend to because inherited wealth, like all wealth, can be tapped into to grow more wealth. Therefore, if disparities in inherited wealth exist, it is likely that disparities in overall wealth will continue into perpetuity without policy intervention.

Though social mobility is inhibited by a variety of interrelated and compounding factors such as lack of access to healthcare, nutrition, quality education, among others - our interest here is to discuss how the federal government has impeded social mobility particularly for people of color through ineffective and discriminatory welfare and housing policies. Secondly, this paper recommends federal investment in incentivized low-income savings plans geared towards homeownership purchases, coupled with increases in the federal minimum wage as a two-prong approach to remediating the current class and racial wealth stratification.

In the wake of the 2009 mortgage foreclosure crisis, one might give pause to a federal policy encouraging low-income homeownership. However, homes continue to represent most Americans' most valuable asset. Moreover, research points to homeownership as a leading cause of the racial wealth gap with white families more than ten times as likely to be homeowners than

[14] Signe-Mary McKernan et al., "Do Financial Support and Inheritance Contribute to the Racial Wealth Gap?" (Urban Institute, September 2012), https://www.urban.org/research/publication/do-financial-support-and-inheritance-contribute-racial-wealth-gap, 2.

[15] Thompson, Jeffrey P, and Gustavo A Suarez. Working paper. *Updating the Racial Wealth Gap*. Divisions of Research & Statistics and Monetary Affairs Federal Reserve Board, November 17, 2017. https://www.federalreserve.gov/econres/feds/files/2015076r1pap.pdf, 15.

black families and homeownership and usual income accounting for 80-90 percent of the black-white wealth gap.[16] Further research illustrates that in spite of the steep losses of the Great Recession, homeownership remains a financially wise investment for all families, including African-Americans who yield average net worth gains of $6,457 per year of homeownership.[17]

Let us now turn to a more descriptive roadmap of the thesis portfolio beginning with the first thesis paper entitled: “How the Democratic Party Lost the Battle Over Welfare”. Beginning with President Roosevelt’s exclusion of black dominated jobs in the Social Security Act of 1935 and the devolution of welfare administration to state authorities under the Aid to Families with Children program, the federal government absconded its responsibility to creating equitable welfare policy. Though President Johnson is similarly considered a figure who sought to uplift the poor through the Great Society programs, his administration was similarly plagued by a devolution of federal authority and also a reliance on the private sector to create jobs which did not materialize in career-tract employment for African-Americans in particular. Under President Reagan, welfare policy shifted sharply towards a demonization of recipients and a more overt assault on black recipients, ultimately slashing funds from the largest social insurance programs. Operating under a similar rhetorical strategy of criminalizing welfare participants, President Clinton signed the Temporary Assistance to Needy Families establishing the first federal mandate for welfare work requirements, resulting in precipitous drops in caseloads. The four presidential case studies unearth a federal policy crippled by devolution of authority to states, entrenched racism both latent and overt, and a lack of aggressive policy for social mobility.

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[16] Thompson and Suarez, “Updating the Racial Wealth Gap,” 28-29, 35-37.

[17] Christopher E Herbert, Daniel T McCue, and Rocio Sanchez-Moyano, “Is Homeownership Still an Effective Means of Building Wealth for Low-Income and Minority Households? (Was It Ever?)” (Joint Center for Housing Studies Harvard University, September 2013), https://www.jchs.harvard.edu/sites/default/files/hbtl-06.pdf, 28, 47-48.

Federal housing policy over the past half century has been similarly mired by a lack of commitment towards upward mobility for the poorest class. The second paper in this thesis portfolio, titled: “The Federal Government: A Boon or Bust for American Homeownership?” focuses on two policies in particular which have proved unsuccessful at mitigating class and racial wealth gaps. The Section 8 Housing Choice Voucher program is one such program that treats housing instability in a symptomatic short-term fashion and does little to change the long-term mobility outcomes for people in poverty. A more effective and long-term approach to housing stability would focus on helping renters become homeowners and in turn build equity and generational wealth. Such a fundamental shift in federal priorities may require new funding sources such as by defunding or vastly reforming the mortgage interest deduction which currently subsidizes higher income households and does little to promote homeownership. Complementary policies which would promote low-income homeownership and greater social mobility include an incentivized matching savings programs and increasing the federal minimum wage which is the focus of the third thesis paper.

The third paper in this portfolio is entitled: “Building Wealth: The Promise of Individual Development Accounts” and focuses on Individual Development Accounts (IDAs) which are savings plans targeted at low-income earners. They also feature a matching component funded by a government agency or other organization to incentivize saving and buoy resources. Individual development accounts represent an assets-based approach to welfare intended to support people in developing long-term assets and financial stability. A federal policy focused on building low-income assets is only possible however as part of a broader strategy which includes increasing the federal minimum wage, a policy which will have an immediate positive impact on low wage workers, particularly on women of color. By strengthening minimum wage standards, more people will be in secure enough financial positions to save for future assets.

The global pandemic has brought to light for many people the racial inequities in our society, as people of color are disproportionately employed in the highest risk but lowest paid frontline jobs while suffering the worst health outcomes. In this same moment, masses are demanding justice for the murder of George Floyd, Breonna Taylor, and Rayshard Brooks among countless other African-Americans killed by police, at rates 3.5 times higher than whites.[18] As what may be the largest protest movement the nation has ever seen takes place, the time is ripe for change and concrete action.[19] Lawmakers and other political leaders should not take this moment for granted. Rather, leaders must seize this opportunity to rectify the egregious and systemic injustices which have defined the federal government since its inception to create a socially mobile economic system, one that is truly reflective of the American Dream.

[18] Osagie K. Obasogie, "Perspective | Police Killing Black People Is a Pandemic, Too." The Washington Post. WP Company, June 5, 2020. https://www.washingtonpost.com/outlook/police-violence-pandemic/2020/06/05/e1a2a1b0-a669-11ea-b619-3f9133bbb482_story.html.

[19] Larry Buchanan, Quoctrung Bui, and Jugal K. Patel. "Black Lives Matter May Be the Largest Movement in U.S. History," July 3, 2020. https://www.nytimes.com/interactive/2020/07/03/us/george-floyd-protests-crowd-size.html.

Chapter 1: How the Democratic Party Lost the Battle Over Welfare

Introduction

On August 22nd, 1996, Democratic President Bill Clinton signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) into law. His signature ended one of the longest existing entitlement programs in the country's history, first created by President Roosevelt in 1935, the Aid to Dependent Children program (ADC). On the Senate floor debating the PRWORA legislation, Senator Ted Kennedy (D-MA) described it as, "legislative child abuse"[20] and "cruelty written large into law".[21] Even in the face of a report declaring that one million children would be forced into poverty as a direct result of the law's passage, Clinton acquiesced to the Republican authored bill, effectively signing on to Newt Gingrich's Contract with America.[22] In the aftermath of the PRWORA legislation, Republican leaders hailed the law as a major achievement as Democratic members of Congress continued to raise concerns.[23]

Beyond the political implications, the real impact of PRWORA is felt by families and young children. Under PRWORA, recipients are cut off from federal aid after five years and work requirements are triggered after two years; no matter your children's age, your access to health care, or your costs of childcare. The legislation undermines the American ideal of a social safety net which stabilizes our democracy and upon which millions of people rely.

Clinton's decision to sign PRWORA was a watershed moment in the history of welfare programming. It was so ideologically profound and unnerving that several of Clinton's top ad-

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[20] Peter Edelman, "The Worst Thing Bill Clinton Has Done." The Atlantic. August 21, 2015. Accessed October 12, 2017.

[21] Brendon O'Connor, *A Political History of the American Welfare System: When Ideas Have Consequences*. Lanham, Md.: Rowman & Littlefield, 2004: 226.

[22] Edelman, "The Worst Thing Bill Clinton Has Done."

[23] John F. Harris and John E. Yang, "Clinton to Sign Bill Overhauling Welfare." The Washington Post. August 1, 1996. Accessed December 03, 2017.

visers quit in its aftermath, shocked as they were at the president's decision.[24] Upon closer examination however, is possible to chart the degeneration and devolution of federal welfare policy in the United States from the very beginning. Moving backwards in time, it is clear to see how Reagan's welfare legacy influenced Clinton's, and how Johnson's failed Great Society programs gave rise to many Reagan voters. Looking back to the New Deal era, it is possible to see how missed opportunities to build a comprehensive social safety net rendered Johnson's ambitious War on Poverty a precarious enterprise from the very beginning. Clinton's decision to sign PRWORA in the leading months up to his re-election bid was inextricably linked to the Democratic Party's feeble anti-poverty platform which though more proactive than their Republican counterparts' was still no where near as aggressive as necessary to uplift the poor.

This paper draws on existing welfare reform research as well as rhetorical analysis of presidential speeches to answer the question: "How did the Democratic Party lose the battle over welfare?". This question assumes that the Democratic Party has indeed already lost the battle, but what exactly was lost and how did the party lose their grip? This paper contends that the Democratic Party had numerous opportunities throughout the 21st century to assert an aggressive anti-poverty platform, but was crippled by internal division and latent racist sentiment.

[24] Edelman, "The Worst Thing Bill Clinton Has Done."

Literature Review

How did the Democratic Party lose the battle over welfare? To understand how and why the Personal Responsibility and Work Opportunity Reconciliation Act became law, it is important to examine the Democratic Party's successes and limitations within each landmark period of welfare reform. This literature review previews leading scholars' views on the Democratic Party's successes and failures at articulating and enacting effective welfare policy. The review is organized chronologically, beginning with President Roosevelt's New Deal agenda.

Roosevelt's administration is simultaneously praised by the political left and critiqued by the political right for its massive expansion of federal government aid and regulations. What is often overlooked however, is the legacy of bureaucratic and institutional racism built into the very language of New Deal laws. For instance, entitlements like Social Security discriminated against African-Americans in obscured but highly calculated ways. The 1935 Social Security Act (SSA) allowed for local administration of benefits, enabling Southern states to discriminate against black recipients in order to service their local economies low-wage system.[25] Looking further back, systemic discrimination can also be found in the predecessor of AFDC benefits: mother's pensions. Mother's pensions were championed by white, middle-upper class Protestant women who sought the pension program as a way to preserve the white race. The pensions frequently excluded families deemed "inferior" or "unsuitable", such as African Americans, Native Americans, and immigrant groups.[26] In these early examples of government intervention, scholars reveal that the New Deal era is significant not only because it enlarged the scope and size of the federal government but because it institutionalized racism in the federal bureaucracy. Also

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[25] Frances Fox Piven and Richard A. Cloward, *Regulating the Poor: The Functions of Public Welfare*. New York: Vintage Books, 1993: 126.

[26] Deborah E. Ward, *The White Welfare State: The Racialization of U.S. Welfare Policy*. Ann Arbor: The University of Michigan Press, 2005.

codified into law during this period was the notion that some people deserve government assistance, while others do not; a discriminatory view which persists throughout the 21st century.

Martin Gilens's book, *Why Americans Hate Welfare Reform,* provides important historical data and analysis about American's perceptions of welfare in relation to race. Gilens's data shows both that Americans praise the self-reliant virtue and Americans have also long perceived blacks as lazy. The stereotype that blacks are lazy dates back to the earliest known research on perceptions of racial characteristics from 1933. From this survey of Princeton students, 75% of students chose "lazy" as a leading attribute of African-Americans, second only to "superstitious".[27] At the intersection of these two entrenched beliefs is the view that blacks are lazy and not self-reliant, true Americans; consequently blacks do not deserve welfare.[28]

This misguided conflation of perceptions also leads people to assume that blacks account for a radically high number of welfare beneficiaries when in reality, whites account for the majority of welfare recipients.[29] Gilens goes on to highlight the serious implications of these insidious beliefs on our public policy and more importantly, on people's lives. He highlights Christopher Howard's research which shows the policy repercussions of the negative association between welfare and African-Americans: "states with higher proportions of blacks in their populations had significantly lower AFDC benefit levels, but similar unemployment benefit levels, compared with states with fewer blacks".[30] Gilens's research demonstrates that discriminatory stereotypes have long plagued African Americans' pursuit of aid and continue to through present day.

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[27] Martin Gilens, *Why Americans Hate Welfare: Race, Media, and the Politics of Antipoverty Policy*. Chicago, IL: University of Chicago Press, 2000: 157.
[28] Gilens, *Why Americans Hate Welfare,* 61, 77.
[29] Gilens, *Why Americans Hate Welfare,* 68.
[30] Gilens, *Why Americans Hate Welfare,* 178.

Building on the foundations of the New Deal and the work of his direct predecessor President John F. Kennedy, President Johnson announced his Great Society.[31] One major component of the Great Society was the War on Poverty which Johnson "fought" with various new and expanded social programs. Most markedly, Johnson greatly expanded access to Roosevelt's direct assistance program, Aid to Dependent Children, which Johnson renamed as the Aid to Families with Dependent Children (AFDC). As part of his War on Poverty arsenal, Johnson loosened eligibility requirements for AFDC resulting in an increase in caseloads from 3 million people in 1960 to a peak of 10 million in 1970.[32] Historians and political scientists range widely in their evaluation of the War on Poverty.

Some scholars view this rise in AFDC participation as evidence of successful government intervention and reduction of poverty. Political scientist, John Schwarz, argues that it was primarily government intervention which reduced poverty by 10-14% from the 1960s to the 1970s.[33] Schwarz refutes the role of the private sector in reducing poverty contending that the federal government was responsible for lifting 1 in 2 people out of poverty, while the private economy was only responsible for aiding 1 in 10 Americans.[34] He goes on to argue that politicians did not recognize the issue of an increasingly crowded labor market, caused by higher rates of women participants and the baby boomer generation coming of age. By misreading the economic landscape, he argues the federal government missed an opportunity to create new public

[31] James T. Patterson, "Girding for War on Poverty," in *America's Struggle Against Poverty in the Twentieth Century* (Cambridge, MA: Harvard University Press, 2003), 10.2307/j.ctvk12r3m, 39.

[32] Eva Bertram, "Democratic Divisions in the 1960s and the Road to Welfare Reform." *Political Science Quarterly* 126, no. 4 (2011): 580.

[33] John E. Schwarz, *America's Hidden Success: Reassessment of Twenty Years of Public Policy*. WW Norton & Co., 1984: 32.

[34] Schwarz, *America's Hidden Success*, 38.

jobs to meet the increased demand for work.[35] Of course, not all academics share Schwarz's positive assessment and many alternatively view the rise of the AFDC caseloads less as a success story and more as a warning sign.

Charles Murray, a leading conservative scholar, takes on Schwarz's analysis directly. In his book, *Losing Ground*, Murray argues that the AFDC program is in part responsible for creating a black underclass. He condemns the Great Society for creating a self fulfilling prophecy of dependence through "The Law of Unintended Rewards". This law holds that no matter what the social program, if government aid is offered as a remedy, a reward for the unwanted behavior is automatically triggered.[36] Murray disputes Schwarz's argument that the swelling labor force of the 1970s led to a dearth of opportunity for women and minority groups. To repudiate Schwarz, Murray points to the near identical labor force participation (LFP) rate between white and black youth throughout the 1950s up until the early 1960s. In 1963, the LFP for black youths (aged 16-24) began to taper off and then dramatically so in 1966.[37] The black youth male LFP also stands in stark contrast to the LFP of older black males which remained at or near the LFP of their white male counterparts.[38] Murray explains this decline not as a consequence of larger economic forces nor as an outcome of racial bias. Rather, Murray explains the decline in young black male LFP during the 1960s as a choice which adversely affected their skill sets, work habits, and work records, translating into muted economic opportunities into adulthood.[39] Where Murray sees ill-advised economic choices among black males during the 1960s, other scholars see an awakening of political consciousness.

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[35] Schwarz, *America's Hidden Success*, 136.

[36] Charles Murray, *Losing Ground: American Social Policy, 1950-1980*. New York: Basic Books, 1984: 212-213.

[37] Murray, *Losing Ground*, 76.

[38] Murray, *Losing Ground,* 80.

[39] Murray, *Losing Ground, 82.*

Political scientists, Francis Fox Piven and Richard Cloward, argue that political unrest is necessary for any whole scale change in American social policy to take place and they believe the government should do much more to alleviate the poverty caused by centuries of systemic race and gender discrimination. Therefore, unlike Murray, Piven and Cloward embrace the increases in AFDC rolls as a result of Great Society reforms. Moreover, Piven and Cloward argue that the rise in welfare participation increased in direct response to just political disorder.[40] They criticize the government for using welfare as a means of control over oppressed classes of people and call for further political resistance to bring about more progressive social reform.

Beyond the flawed implementation of Great Society policy, external factors also hindered the reform's success. Race riots towards the later half of the decade complicated the relationship between black leaders and white liberals, inhibiting their ability to push for more inner-city spending.[41] Labor unions, typically a dependable Democratic ally, were also divided over supporting many Great Society programs. While the Great Society programs were not as overtly racist in design as their New Deal counterparts, tense race relations marked by antipathy and self-preservation among whites undoubtedly stymied the impact of many initiatives.

Finally, other scholars view the War on Poverty and see not missed opportunities, but a misalignment of priorities resulting in mass defection from the party. In the book, *Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics*, Thomas Edsall and Mary Edsall explain that in response to the Democratic Party's 1960s leftward swing towards rights-based politics, two core voting constituencies shifted away from the party. These blocs were the Northern white, often Catholic and European ethnic voters and the lower-income Southern popu-

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[40] Piven and Cloward, *Regulating the Poor*, 198.

[41] Piven and Cloward, *Regulating the Poor*, 287; Gary Orfield, "Race and the Liberal Agenda: The Loss of Integrationist Dream, 1965-1974." In The Politics of Social Policy in the United States, edited by Margaret Weir, Ann Shola Orloff, and Theda Skocpol. Princeton, NJ: Princeton University Press, 1988; 329, 338.

list voters.[42] Instead of uniting around common conditions of class, race divided voters and the Democratic Party lost the 25 year old "bottom-up" New Dealer voting bloc. By the 1964 elections, the Republican Party was already laying claim to the millions of disaffected voters by characterizing the Democratic Party as run by liberal elites.[43]

Alienation and anger grew among white working class voters as the civil rights agenda shifted from rights towards jobs and material concerns for blacks. Barry Goldwater, George Wallace, and Richard Nixon demonized the Democrat's liberal ideals and invited the new cadre of voters into the Republican Party. The Republicans offered a populist message on race and taxes, promising to end reverse discrimination on whites and lower taxes which the public increasingly saw as feeding ineffectual social programs. They also cultivated an image as being a pro-family party, furthering drawing voters away from the Democrats, especially Southern evangelical Christians.The exodus of Democratic Party voters prompted a realignment in the American electorate, transforming the Republican Party from a minority presidential coalition into a majority coalition.[44] The trends continued into the 1980s, when voter identification with the Democratic Party began falling.[45]

By the 1980s, neoliberalism began to gain ground as a dominant political doctrine in both parties as America's embrace of big government waned. The rise of President Ronald Reagan's Conservative Coalition is also credited for the neoliberal shift in Democratic politics. Reagan capitalized on the growing anti-welfare sentiment in the public by demonizing welfare recipients

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[42] Thomas Byrne Edsall and Mary Edsall. "Chain Reaction: The Impact of Race, Rights, and Taxes on American Politics." In *American Society And Politics: Institutional, Historical, and Theoretical Perspectives,* edited by Theda Skocpol and John Campbell. McGraw-Hill College, 1994: 404.

[43] Edsall and Edsall, "Chain Reaction," 405.

[44] Edsall and Edsall, "Chain Reaction," 411-413.

[45] Alan I. Abramowitz and Kyle L. Saunders. "Ideological Realignment in the U.S. Electorate." *The Journal of Politics* 60, no. 3 (1998): 635.

and praising hard working Americans.[46] He went one step further in his embrace of white America by humiliating black America through his public ridiculing of convicted felon Linda Taylor, aka, “welfare queen”. Reagan’s calculated rhetorical strategy fed into white’s stereotypes about black’s diminished work ethic.[47] Democrats offered no defense of welfare programs and in time were subsumed by conservative ideology through Clinton’s embrace of neoliberalism and “Third Way” politics.

President Clinton’s formulation of “Third Way” politics solidified the Democratic Party’s neoliberal shift. After the loss of Gov. Michael Dukakis to President George H.W. Bush in 1998, the mainstream and centrist members of Democratic Party sought to rebrand the party. Supported by the Democratic Leadership Council, Clinton espoused a “New Democrat” vision. The New Democrats would not be associated with the typical tax-and-spend liberals but would instead seek balanced budgets and rein in redistributive spending.[48] The New Democrats would not be friends of welfare recipients but would in Clinton’s own words: “end welfare as we know it”. Through the passage of the PRWORA legislation, Clinton attempted to silence his Republican adversaries, solidify his voting base, and ensure a second term in office.[49]

Methodology

This paper employs comparative case studies and secondary source analysis to answer the question: “How did the Democratic Party lose the battle over welfare?” The case studies examine

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[46] Carly Hayden Foster, “The Welfare Queen: Race, Gender, Class, and Public Opinion." Race, Gender & Class 15, no. 3/4 (2008): 162-79.

[47] Foster, "The Welfare Queen,” 162-79.

[48] Janos Ladanyi and Ivan Szelenyi, “The New Social Democrats." *Social Research* 64, no. 4 (1997); Hale, Jon F. "The Making of the New Democrats." *Political Science Quarterly* 110, no. 2 (1995): 207-32.

[49] Martin Carcasson, “Ending Welfare as We Know It: President Clinton and the Rhetorical Transformation of the Anti-Welfare Culture." Rhetoric and Public Affairs 9, no. 4 (2006).

four modern presidents who shaped the American welfare state: Franklin Delano Roosevelt, Lyndon Johnson, Ronald Reagan, and Bill Clinton. By analyzing the contributions and limitations of each president and considering how their legacies influenced each other, it is possible to trace the expansion and later retrenchment of the welfare system. John Kingdon's multiple streams model of analysis is also employed. Kingdon's model allows for a nuanced view of the interplay between policy, politics, and problems. Through this approach it is possible to understand how the intersection of a national crisis or the public's mood, policy proposals, and political power dynamics and other considerations collide to produce a certain outcome.[50]

Findings

Roosevelt's Complicated Legacy

It is commonly understood that the era of big government began with President Roosevelt's New Deal. Catalyzed by the desperate poverty endured by millions during the Great Depression, Roosevelt sought to reduce suffering through direct aid and work relief. In his first term in office, Roosevelt created the Works Progress Administration (WPA), the Civilian Conservation Corps (CCC), and the Public Works Administration (PWA) which together would create millions of jobs for the unemployed.[51] Roosevelt also ushered in the first national social insurance program with the Social Security Act of 1935. What is less understood however is how the economic and racialized tensions within the Democratic Party dually served Roosevelt's jobs agenda in the short term and undermined prospects for a full employment strategy in the long term. The legacy of Roosevelt's tenure is also mired by the racial discrimination his federal gov-

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[50] John Kingdon, "How Does an Idea's Time Come?" In Agendas, Alternatives, and Public Policies. 1st ed. New York: Addison-Wesley Longman, 1995.

[51] Piven and Cloward, *Regulating the Poor.*

ernment turned a blind eye to in order to earn the support of Southern Congressmen. Roosevelt's own economically cautious and racially ambivalent leadership prescribed a narrow vision of employment rights and racial equity, a mantle President Johnson would carry with precarity as he tried to navigate his War on Poverty.

The defining tensions in Roosevelt's administration emanated from the progressive and conservative branches of his party. Louisiana Populist Senator Huey Long posed the first serious threat to Roosevelt through his hugely popular "Share Our Wealth" campaign which proposed taxes on millionaires, a negative income tax of $5,000, and annual incomes of $2,000 for all Americans.[52] In response to Long's populist movement, Roosevelt's Democratic Party ran secret polls to determine the efficacy of Long's third party candidacy in the 1936 election.[53] Feeling the pressure from Long, in 1935, Roosevelt asked Congress for nearly $5 billion dollars to create 3.5 million jobs through the WPA.[54]

Francis Townsend, a physician, is also credited for urging Roosevelt in a more interventionist direction. Townsend developed a plan to have the federal government provide a monthly pension of $200 for every person aged 60 and older. Townsend's plan gained traction as his followers, Townsendites, comprised of the elderly and reliable voters.[55] Feeling the public pressure, Roosevelt moved forward with the SSA, though on his own terms. He rebuffed more liberal members of his cabinet like Secretary of Commerce Harry Hopkins who advocated for non-contributory old-age and unemployment benefits as a matter of right. Instead, Roosevelt opted

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[52] Philip Abbott, Political Thought in America: Conversations and Debates. Long Grove, IL: Waveland Press, Inc., 2010: 238.

[53] David Greenberg, "FDR's Nate Silver." POLITICO Magazine. January 16, 2016. Accessed October 29, 2017.

[54] Piven and Cloward, *Regulating the Poor,* 98.

[55] Ann Shola Orloff, "The Political Origins of America's Belated Welfare State." In *The Politics of Social Policy in the United States*, edited by Margaret Weir, Ann Shola Orloff, and Theda Skocpol. Princeton, NJ: Princeton University Press, 1988: 68.

for a less generous contributory social insurance program by which employed workers paid for their retirement through taxes.[56] The first payments in the 1940s averaged to $58 per month, decidedly less than Townsend's plan.[57] Though the SSA remains a great achievement and cornerstone of the country's welfare state, its infancy was corrupted by racial discrimination and economic oppression of African-American farm workers and domestic laborers.

In order to cajole the Southern Democrats to vote for the new social insurance plan, Roosevelt conceded vast federal authority. He promised little federal oversight, state administration, and key exceptions in SSA coverage. Although the President's Committee on Economic Security recommended that all employed persons be eligible for the unemployment and old-age insurance, Southern Senators fought against the measure. In their win to exclude domestic and agricultural workers from coverage, southern employers gained even more coercive power over workers. This change disproportionately affected female blacks who worked as domestic laborers and male blacks who worked as farm field hands.[58] Without unemployment insurance or old-age insurance to draw from, workers were forced to remain in the caste-economy predominant in the south.[59] The discriminatory exclusion from coverage lasted nearly two decades, until the law as amended in 1950 and 1954.[60]

In a further blow to black laborers in the south, Roosevelt also allowed state and local administrators to determine eligibility for the Aid to Families with Children (AFC). This concession let southern administrators decide who "deserved" public assistance and who did not; ren-

[56] Orloff, "The Political Origins of America's Belated Welfare State," 72-3.

[57] "Historical Background And Development Of Social Security." Social Security. Accessed December 10, 2017.

[58] Orloff, "The Political Origins of America's Belated Welfare State," 77.

[59] Piven and Cloward, *Regulating the Poor,* 115.

[60] Larry Dewitt, "The Decision to Exclude Agricultural and Domestic Workers from the 1935 Social Security Act." *Social Security Bulletin* 70 (November 2010). November 2010. Accessed December 10, 2017.

dering low-wage, tenant farming and domestic work to be the only option available to blacks. In fact, the practice of racial and ethnic discrimination in welfare eligibility dates back to the first years of public assistance. The Progressive Era mothers pension movement, which the AFC grew out of, initially sought the preservation of the white race through aid to widowed mothers. Mothers pensions as a coercive tool of assimilation for immigrant women and children.[61] As the movement spread to over forty states, moralistic rules for dispensing aid were imposed; shutting out unmarried women, immigrants, African-Americans, the poor, and any other deemed to live in “unsuitable” homes.[62] Building on this existing state structure, Southern states wanted similar levels of autonomy in determining eligibility for federal aid. With few regulations and loose oversight from the federal government, Southern states were able to restrict African-Americans’ access to their rightful federal aid, holding them captive in the low-wage labor economy.[63]

By the end of Roosevelt’s presidency, he was becoming decidedly more liberal in his economic philosophy and more outspoken about the federal government’s responsibility to workers. In his State of the Union Address to Congress in 1944, he outlined what has come to be known as the “Second Bill of Rights” or “Economic Bill of Rights”. First on his list was: “The right to a useful and remunerative job in the industries or shops or farms or mines of the nation”.[64] Roosevelt did not live long enough to work on his declaration of rights. Yet after his death in 1945, liberal New Dealers continued to press for more federal intervention in the economy. They sought a system in which the federal government would increase spending until the labor force reached full employment. In the end, the Full Employment Act of 1946 was watered

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[61] Ward, *The White Welfare State*, 54.
[62] Ward, *The White Welfare State*, 2005.
[63] Piven and Cloward, *Regulating the Poor,* 115.
[64] Cass R. Sunstein, *The Second Bill of Rights: FDR’s Unfinished Revolution - and Why We Need it More Than Ever*. New York: BasicBooks, 2006: 13.

down, stripped of its right to a job provision as well as the goal for full employment. In place of these measures, the Council of Economic Advisers (CEA) was created to make recommendations to the White House for the goal of maximum employment.[65]

Roosevelt's New Deal coalition was ultimately unable or unwilling to create a strong class consciousness which transcended race, geography, and private interests.[66] Even in 1938, when Roosevelt tried to purge Southern Democrats from his party by campaigning against them, his actions came too late.[67] By the time of his own transformation towards the rights of workers, exemplified in his "Second Bill of Rights" address, his party still lacked support. The lines were drawn and Southern Democrats expected the same deference they enjoyed when the Social Security Act was signed protecting their low-wage and discriminatory labor practices. The New Dealers' early kowtowing to Southern legislators and Roosevelt's unwillingness to construct a truly national welfare state until the end of his time in office highlight the Democratic Party's predilection for politically convenient solutions as well as white interests over equal justice.[68] By the "Revolt of 1948," the rise of the Southern Dixiecrats had severely undermined the Democratic coalition. Southern leaders expressed open disdain for President Truman's civil rights agenda, eventually leading to the nomination of Strom Thurmond as a third party candidate for the States' Rights Democratic Party, more commonly known as the Dixiecrats.[69] Ultimately, the

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65 Charles Noble, *Welfare As We Knew It: A Political History of the American Welfare State*. New York: Oxford University Press, 1997: 71-72.; Margaret Weir, "The Federal Government and Unemployment: The Frustration of Policy Innovation from the New Deal to the Great Society." In The Politics of Social Policy in the United States, edited by Margaret Weir, Ann Shola Orloff, and Theda Skocpol. Princeton, NJ: Princeton University Press, 1988: 156.

66 Weir, "The Federal Government and Unemployment," 187.

67 Weir, "The Federal Government and Unemployment," 74.

68 Orloff, "The Political Origins of America's Belated Welfare State," 72.

69 V.O. Key, "Hoovercrats and Dixiecrats," in *Southern Politics in State and Nation* (New York, NY: Alfred A. Knopf, 1950), pp. 329-344.

Roosevelt administration's preference for placation and the racial divisions within the party would undermine future federal efforts on poverty like President Johnson's Great Society.[70]

The Promise and Specter of Johnson's Great Society

In the aftermath of President Kennedy's assassination, Johnson inherited a mandate to govern and continue Kennedy's New Frontier vision for the country. His landslide victory in the 1964 election over Republican Barry Goldwater and the huge Democratic majorities in Congress furthered that mandate. Johnson was able to pass historic civil rights legislation barring discrimination in employment practices and voting. However, by the middle of the decade Johnson was steadily losing his support among whites and blacks alike. For African-Americans, Johnson's War on Poverty was underfunded, mismanaged, and even condescending. For whites, the Great Society programs were too narrowly aimed at blacks and ineffective at reducing urban poverty.[71] By the end of the decade, the Democratic Party was fractured by disillusionment amongst both the progressive and conservative wings. The Party's proactive position on welfare entitlements for the poor has never recovered. Instead, Johnson's Great Society legacy continues to fuel conservative attacks on government intervention to societal and economic problems.

Launching his War on Poverty, Johnson was forced to work within a predestined policy framework. The shadow of the Southern Democrats and New Deal politics lingered over the Democratic Party of the 1960s as a national public employment strategy remained an untenable position. Johnson therefore chose to use tax cuts and training programs to encourage private sector work.[72] Johnson also favored constituency-targeted programs as an alternative to national

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[70] Weir, "The Federal Government and Unemployment," 167-168.
[71] Weir, "The Federal Government and Unemployment," 184.
[72] Weir, "The Federal Government and Unemployment," 182.

policy and it was this policy targeting blacks in urban areas which would drive whites away from the party as well as alienate radical black leaders.[73]

Some of the training programs offered to black communities resulted in the "ghetto merry go round" in which trainees underwent training that did not help them find jobs and forced them into circumstances similar to what they were trying to leave.[74] The jobs offered by the private sector through heavily subsidized tax deductions did not materialize in significant numbers and what work was offered was mostly entry-level.[75] The entry-level positions often went unfilled as African-Americans sought "ladder jobs", not low-wage, static positions which they had been relegated to for decades.[76] When high wage jobs were offered, such as those in the auto industry, black workers applied in droves, pointing to a fundamental flaw in the jobs program's design.[77] The menial jobs offered were considered summer "riot insurance" to quell unrest in cities and a short term solution to a larger problem of high-wage job creation and skills development.[78] Finally, the Community Action Programs which were intended to empower urban communities and create local jobs proved ineffectual and poorly managed.[79] In response to the failing training programs and the dearth of high-paying ladder jobs, Johnson stayed the course in spite of resistance within his own White House and party.

White House advisers thought that cash transfers, universal family allowances, as well as tax increases could salvage the War on Poverty.[80] Liberal Congressmen sought to create a public

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[73] Weir, "The Federal Government and Unemployment," 183.
[74] Brown, *Race, Money, and the American Welfare State*, 287.
[75] Brown, *Race, Money, and the American Welfare State*, 298.
[76] Brown, *Race, Money, and the American Welfare State,* 272, 289.
[77] Brown, *Race, Money, and the American Welfare State,* 290.
[78] Guian A Mckee, "'This Government Is with Us': Lyndon Johnson and the Grassroots War on Poverty," in *The War on Poverty: A New Grassroots History, 1964-1980*, ed. Annelise Orleck and Lisa Gayle Hazirjian (Athens, GA: University of Georgia Press, 2011), https://doi.org/https://www.jstor.org/stable/j.ctt46np4b, 39.
[79] Weir, "The Federal Government and Unemployment," 185.
[80] Brown, *Race, Money, and the American Welfare State,* 360-1.

employment program through the existing Office of Economic Opportunity, but were shut down as officials saw the task of sustaining public jobs as daunting and potentially inflationary.[81] Secretary of Labor Willard Wirtz also proposed a jobs program to replace direct aid but was rebuffed.[82] Johnson demonstrated his preference for the status quo by halting the Labor Department's long-planned reorganization of the Manpower program which would have asserted more federal control over job training programs.[83] Ultimately, Johnson's attempts at group-based interventions proved too short-sighted and conventionally designed for the herculean task of reversing decades of economic oppression and segregation of African-Americans. Coupled with the race riots of the 1960s, white's negative perception of the targeted urban programs proved the final death knell to the War on Poverty.

Majority white union members also did not support the civil rights friendly AFL-CIO leadership; instead viewing interventions for blacks as an unfair advantage.[84] Union employers had historically provided unemployment insurance and workers compensation benefits directly. Therefore, for local organized labor pursuing a national welfare strategy was not in their immediate interest.[85] Unions did not support a national jobs strategy either, concerned by the potential for millions of new workers to drive down their wages.[86] Working class whites, once a stronghold of the Democratic Party, were now alienated and many crossed party lines to vote for the Nixon/Wallace ticket in 1968.[87] In the end, what could have been a class-based coalition among

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[81] Brown, *Race, Money, and the American Welfare State*, 290.

[82] Noble, *Welfare As We Knew It*, 95; [82] Mckee, "'This Government Is with Us'", 38-39.

[83] Weir, "The Federal Government and Unemployment," 179.

[84] Weir, "The Federal Government and Unemployment," 184-5.; Frances Fox Piven, and Richard Andrew Cloward. *The New Class War: Reagan's Attack on the Welfare State and its Consequences*. New York: Pantheon Books, 1985: 168.

[85] Brown, *Race, Money, and the American Welfare State*, 278.

[86] Noble, *Welfare As We Knew It*, 87.

[87] Weir, "The Federal Government and Unemployment," 185.

working class blacks and whites was subverted by the federal government's own efforts and Johnson's inability to make a convincing and widely appealing political argument.

The race riots of the 1960s drove whites further away from the Democratic Party and towards Republicans who promised law and order. The riots which plagued Johnson's presidency signaled to the white community that the War on Poverty was failing.[88] According to a Gallup Poll, by the end of the decade only 16% of Americans viewed race as the most important issue facing the country down from a high of 52% of respondents in 1965. By the fall of 1966, more than half of Americans thought the push for integration was happening too fast.[89] Liberals offered little defense of the War on Poverty spending and could provide no antidote to the riots as they were also divided over how to proceed.[90]

The New Left movement is credited by some scholars as altering the course of the Democratic Party with its hyper-focus on the Vietnam War and cultural issues. Over the course of the war, progressive sympathizers of the Great Society became adversaries. Later, with the leadership vacuum created by Johnson's decision not to run for reelection in 1968, Democrats failed to build a cohesive coalition. They were split between establishment candidates: incumbent Vice President Hubert Humphrey and New Left candidates: Robert Kennedy and Eugene McCarthy. Although Humphrey lost to Richard Nixon by small margins in the 1968 election, by 1972 Democrats were affiliated with "amnesty, acid, and abortion." Voters firmly rejected Democratic nominee Senator George McGovern who lost to President Nixon by a landslide popular vote margin of 23%.[91] The New Left counterculture movement is also faulted for laying the ground-

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[88] Orfield, "Race and the Liberal Agenda," 329.
[89] Orfield, "Race and the Liberal Agenda," 335.
[90] Orfield, "Race and the Liberal Agenda," 328.
[91] Brendon O'Connor, *A Political History of the American Welfare System*, 2004: 80-1.

work for Ronald Reagan's conservative coalition.[92] Taken together, Republicans were able to seize on their fractured opposition party and draw on the New Left's anti-government rhetoric as ammunition for their own attacks on big government.[93]

Reagan's Revolution and Retrenchment

By the 1980s, after a period of uncertainty and malaise during the Carter administration, Americans were ready for a hopeful voice and vision for the country in the form of Ronald Reagan. Whites now viewed the civil rights movement as a successful equalizing force for African-Americans. Any subsequent experiences of poverty were due to individual choices and not discriminatory policies.[94] Reagan capitalized on this ethos and convinced Americans that small government and laissez faire economics would liberate Americans from the clutches of welfare dependency. He faulted "welfare queens," symbolized as African-American women as a drain on federal reserves and therefore an adversary of American individualism.

In his first term in office, Reagan made an immediate impact downsizing the size of government. He cut job training funds, AFDC benefits, Food Stamps, Medicaid, and slashed unemployment benefits to their lowest levels since the 1930s.[95] In the 1981 Omnibus Budget and Reconciliation Act (OBRA), Reagan won cuts of $680 million per year to the AFDC program alone.[96] To further minimize the role of the federal government, Reagan attempted to reorganize the AFDC and Food Stamp programs into state block grants. The goal behind Reagan's "New

[92] E. J. Dionne, *Why Americans Hate Politics*. New York: Simon & Schuster, 2004: 53.

[93] Theodore R. Marmor, Jerry L. Mashaw, and Philip L. Harvey. *America's Misunderstood Welfare State: Persistent Myths, Enduring Realities*. New York: Basic Books, 1995: 14.

[94] Noble, *Welfare As We Knew It*, 112.

[95] Piven and Cloward, *The New Class War*, 154-155.

[96] Paul Pierson, *Dismantling the Welfare State?: Reagan, Thatcher, and the Politics of Retrenchment*. Cambridge: Cambridge University Press, 2007: 118.

Federalism" was to shrink the welfare state by decentralizing authority.[97] Although he was not successful in transforming the AFDC entitlements into block grants, his policy moves set precedent for nearly identical welfare reforms to come not long after, under President Clinton. With the aid of the Democratic controlled Congress, Reagan was also responsible for passing the Family Support Act (FSA) of 1988. The FSA was the first federal law to mandate work requirements for welfare recipients and establish rigorous paternity identification requirements.[98] Like the block grant initiative, the FSA would serve as a launching pad for Clinton's overhaul of the welfare system.

Bolstering Reagan's small government platform was the support he received from the Religious Right or Moral Majority. By the 1980s, conservatives were associated with cultural issues as much as they were associated with economic ideology and it became hard for a Republican to win without holding socially conservative views.[99] Reagan embraced the role as the country's moral leader and from this pedestal he demoralized welfare recipients and fanned the flames against federal government social programs. Through the creation of easily targeted caricatures like the "welfare queen", symbolized as a black woman, Reagan signaled to his base that he was a candidate for true (white) hard working Americans who did not need to rely on government help. The Republican Party cast big government spending as a threat which undermined both industrious small business owners as well as the entire middle class.[100] Demonizing welfare recipients was easy fodder for Republicans given the public mood.

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[97] Pierson, *Dismantling the Welfare State?*, 157.

[98] William M. Epstein, "*Welfare in America: How Social Science Fails the Poor*, Madison, WI: University of Wisconsin Press, 1999: 144.

[99] Dionne, *Why Americans Hate Politics*, 236.

[100] Andrea Louise Campbell, "Parties, Electoral Participation, and Shifting Voting Blocs." In *The Transformation of American Politics*, edited by Paul Pierson and Theda Skocpol. Princeton, NJ: Princeton University Press, 2007: 78.

By the 1980s, the stereotype of the welfare recipient was entrenched as a sexually promiscuous single black mother with children born out of wedlock.[101] This stereotype was elevated by House Majority Leader Newt Gingrich (R-GA) and the lingering specter of Moynihan Report. Many interpreted Moynihan's finding on the "Negro" family as evidence of the destructiveness of single-parent families, especially with women as the head of the household - a feat only accomplished with the help of enabling government aid.[102] While Moynihan was disturbed by the public's reception to his leaked report, others saw the rise of single-parent families as a leading cause of poverty and serious problem in and of itself.[103] Gingrich touted similar views in Congress, eventually gaining enough traction to shape Clinton's welfare reform in the 1990s.[104] But everyday Americans were not far behind in their distrusting and concerned views about welfare dependence, the "culture of poverty", and their toll on society.

The predominant view of welfare recipients was that they were too dependent upon the state and/or acculturated to a life of poverty. In fact, the majority of Americans believed that poor people, blacks, and women should depend on the government less for help and rely instead on their own individual initiative[105]. By the 1980s, opposition had increased for income maintenance or welfare programs like the AFDC.[106] The public's views on welfare seemed to contradict their opinions about other social programs and government interventions. For instance, support

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[101] Foster, "The Welfare Queen," 163.

[102] Ta-Nehisi Coates, "The Black Family in the Age of Mass Incarceration." The Atlantic. March 08, 2017. Accessed November 2, 2017.

[103] Murray, *Losing Ground*, 132.

[104] Brendon O'Connor, "The Protagonists and Ideas Behind the Personality." Social Justice, 86th ser., 28, no. 4 (2001): 8.

[105] Ram A Cnaan, "Public Opinion and the Dimensions of the Welfare State." Social Indicators Research 21, no. 3 (1989): 301.

[106] Robert Y. Shapiro, and John T. Young. "Public Opinion and the Welfare State: The United States in Comparative Perspective." Political Science Quarterly 104, no. 1 (1989): 60-1.

for social security has never wavered according to polls conducted between 1977-1990.[107] And in the years preceding Reagan's presidency, another poll found that 80% of Americans believed that the able-bodied people should be removed from welfare rolls and given government jobs if the private sector could not provide them.[108] But like Johnson, Reagan did not move to create a public jobs program and instead set in motion the decentralization of entitlement programs, resulting finally in President Clinton's PRWORA legislation.

During the 1980s, the Democratic Party offered little defense of social programs and continued to struggle in articulating a consistent economic message. Since the Great Society era, Democrats vacillated between support over government jobs programs, aiding fading industries, and fixing the deficit.[109] Compared to the Republicans who were united under the "strict father" world view and clear economic message of job creation through tax cuts, Democrats lacked appeal and consistency.[110] And they were competing with a Republican party increasingly emboldened by their economic message. After 1972 and peaking during the Reagan years, Americans strongly associated the Republican Party with stronger economic outcomes; as the "party of prosperity".[111] Lagging behind, Democrats tried to reframe the debate over welfare as a matter of children's defense.[112] Unlike the activism of the Great Society and Civil Rights era, children's rights did not not inspire similar interest and this political strategy too faded.

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[107] Jill Quadagno, *The Color of Welfare: How Racism Undermined the War on Poverty*. New York, NY: Oxford University Press, 1996.

[108] Brown, *Race, Money, and the American Welfare State*, 353.

[109] Mark Smith, "Economic Insecurity, Party Reputations, and the Republican Ascendance." In *The Transformation of American Politics*, edited by Paul Pierson and Theda Skocpol. Princeton, NJ: Princeton University Press, 2007: 149.

[110] Campbell, "Parties, Electoral Participation, and Shifting Voting Blocs," 78.

[111] Smith, "Economic Insecurity, Party Reputations, and the Republican Ascendance," 143.

[112] Dionne, *Why Americans Hate Politics*, 294.

Clinton's Capitulation to the GOP

Years before President Clinton was elected to office in 1992, he helped craft a new ideological framework for the Democratic Party under the aegis of the newly formed Democratic Leadership Council (DLC). The sense of urgency to create a new Democratic identity grew after the party experienced their third presidential loss in a row in 1988. The DLC, an unofficial party organization, created the New Democrats faction within the Party. The group sought to shift the party towards the center in embrace of neoliberal economic principles, while consciously avoiding the liberal label. The New Democrats were also intent on courting swing white, middle class voters and avoiding being pigeonholed as the party of blacks, feminists, and gays.[113] Clinton worked up the ranks to the party leadership in the DLC and he both shared and promoted the group's moderate, colorblind message. By the time Clinton ran for president in 1992, he had honed his centrist message offering a transcendent "Third Way".

In 1996, Clinton signed the Personal Responsibility and Work Opportunity Act, transforming the structure and scope of the country's federal welfare system. The PRWORA upended President Roosevelt and President Johnson's expansion of entitlements by curtailing federal spending, prescribing new time limits on aid, and mandating new work requirements. Paralleling the first era of welfare spending when AFC payments were determined by states on the basis of individual, frequently racist criteria, the PRWORA devolved significant rulemaking authority to the states and placed renewed emphasis on individual morality.

Clinton's welfare reform law devolved spending decisions to the states through a new block grant structure. The new block grant program, known as Temporary Assistance for Needy Families (TANF), replaced the longstanding AFDC program, as well as the Emergency Assis-

[113] Hale, "The Making of the New Democrats," 223-4.

tance (EA), and the Job Opportunities and Basic Skills (JOBS) programs. Before the PRWORA was enacted, the federal government reimbursed 100% of state spending for AFDC recipients.[114] Under the new TANF block grants, the federal government allocated a fixed amount of aid money per state. This means that in times of economic recession when need for public assistance rises, there will be fewer dollars available as the contingency fund amount is predetermined.[115] It is also worth noting that the PRWORA also cut the Food Stamps and Supplemental Security Income budgets by $50 million dollars over five years.[116]

New time restrictions meant that adults could only receive federal aid for a maximum and lifetime total of five years or less, depending on the state. Recipients are also required to work after receiving aid for two years; though states may require work or community service within two months of receiving assistance.[117] Retreating federal authority also meant that there now no rules mandating a minimum cash allowance for recipients. In fact, there is no federal rule requiring states to provide cash assistance through TANF at all. By 2003, the percent of TANF funds spent on cash assistance had fallen to less than 40%.[118] With few federal guidelines, states are able to spend TANF funds at their discretion as long as the spending is in service of the PRWORA objectives: to curb teenage pregnancy, promote heteronormative marriage, encourage work in the private sector, and reduce entitlement spending and welfare dependency.

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[114] Shanta Pandley and Shannon Collier-Tenison. "Welfare Reform: An Exploration of Devolution." Social Justice, 83rd ser., 28, no. 1 (2001): 60.

[115] Elaine McCrate and Joan Smith, "When Work Doesn't Work: The Failure of Current Welfare Reform." Gender and Society 12, no. 1 (1998): 75.

[116] Howard, *The Welfare State Nobody Knows*, 94.

[117] Pandey and Collier-Tenison, "Welfare Reform," 60.

[118] Megan C. Martin and Koen Caminada. "Welfare Reform in the U.S.: A Policy Overview Analysis." *Poverty & Public Policy*, 8th ser., 3, no. 1 (2011).

Together, the cuts in federal spending and devolution of rulemaking to states, contributed to a 63% reduction in AFDC caseloads from 1995 to 2005; from 12.3 million to 4.5 million.[119] State discretion has also allowed states with higher percentages of black residents to provide less generous benefits when compared to states with more white residents.[120] Finally, evidence has shown that TANF beneficiaries have worse outcomes compared to previous AFDC beneficiaries. Research reveals that TANF recipients earn only 87 percent of the poverty line after ending benefits; whereas, AFDC recipients earned 111 percent of the poverty line. The study's authors conclude that the workfare and time limit provisions of the TANF program compel people into lower wage work, while the more flexible AFDC programs allows recipients to select from higher paying opportunities.[121]

The political moment Clinton arrived at in 1996 was not a favorable one. In his first term, Clinton failed to overhaul the healthcare system and after the 1994 midterm elections, he was forced to contend with a majority Republican Congress. Gingrich's Conservative Coalition targeted social programs immediately. Gingrich led the attack on welfare by promoting the belief that illegitimate births were the primary cause of government dependency.[122] Lawmakers openly stated that the goal of PRWORA was to stigmatize aid and make single-parenthood more difficult.[123] One Georgia legislator even asserted that the punitive measures for welfare recipients were in fact kindly when compared to more extreme proposals, such as mandatory steriliza-

[119] Martin and Caminada, "Welfare Reform in the U.S."
[120] Gilens, *Why Americans Hate Welfare*, 178.
[121] Martha Ozawa and Hong-Sik Yoon, "Leavers" from TANF and AFDC: How Do They Fare Economically?" *Social Work* 50, no. 3 (2005): 246.
[122] O'Connor, "The Protagonists and Ideas Behind the Personality," 8, 21.
[123] O'Connor, "The Protagonists and Ideas Behind the Personality," 20.

tion.[124] The public's views of welfare were similarly unforgiving. In the mid-nineties, only 31% of people believed that welfare recipients who can work try to find jobs.[125] By August of 1996, Congress had already sought the passage of two welfare reform bills both of which Clinton vetoed. Anticipating the Republican's third attempt, Clinton weighed the advice of his advisers and Vice President Al Gore. Strategist Dick Morris warned that a third veto on welfare legislation would turn his "fifteen point win into a three point loss".[126] Aware of the potentially disastrous effects, Clinton signed PRWORA into law.[127]

The Republican Party was not the only important voice in the President's ear however. At the same time that politicians and scholars on the right voiced their support for reform in the 1980s and 1990s, members of the left were also adopting a more conciliatory view. Political commentators like Thomas and Mary Edsall as well as the Democratic Leadership Council, advised that the Democratic Party ought to distance itself from its close identification with black and urban voters in effort to win back white working class voters. One way to do that was to use welfare reform as a tool of persuasion.[128] Clinton was a prime candidate for this message with his record on welfare reform as Governor of Arkansas.[129] Through famously vowing to "end welfare as we know it" on the campaign trail, Clinton signaled change and accountability to white voters and ultimately won them back. Running as a centrist, distancing himself from the

[124] The Harvard Law Review Association. "Dethroning the Welfare Queen: The Rhetoric of Reform." Harvard Law Review 107, no. 8 (June 1994): 6.

[125] Gilens, *Why Americans Hate Welfare*, 61.

[126] Carcasson, "Ending Welfare as We Know It," 656.

[127] Edelman, "The Worst Thing Bill Clinton Has Done."

[128] Monte Piliawsky, "Racism or Realpolitik? The Clinton Administration and African-Americans." The Black Scholar 24, no. 2 (1994): 3.; Carcasson, "Ending Welfare as We Know It," 656.

[129] Carcasson, "Ending Welfare as We Know It," 661.

black community, and heralding a swift end to welfare enabled Clinton to become the first Democratic presidential candidate since 1948 to outpoll his Republican opponent.[130]

To fully understand Clinton's welfare legacy, it is important not only to discuss the implications of the monumental PRWORA legislation but also the complementary tax reform of the era. Ten years removed from PRWORA, Clinton described the Earned Income Tax Credit (EITC) as an integral program in his overarching goal to "make work pay".[131] The EITC works by allowing individuals and families to reduce the amount of income tax owed and usually results in a refund.[132] As president, Clinton oversaw the greatest expansion of any social program in American history through the EITC. The number of families claiming the EITC grew from 12.5 million in the beginning of the 1990s to 19.3 million by the end of the decade, surpassing both Food Stamps and the new TANF program in size and cost.[133] Individuals without children also became eligible for the program for the first time and the income range for eligible participants expanded. In the face of Republican attempts to scale the program back, Clinton defended the EITC as the main way people could work themselves off of AFDC and successfully protected the program.[134] It was not immediately clear though that Clinton would choose the EITC as his primary anti-poverty policy.

During Clinton's first term, there was discussion within his administration whether or not to expand the EITC and increase the minimum wage standard. Ultimately, Clinton pursued the EITC expansion first in The Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66). Though

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[130] Piliawsky, "Racism or Realpolitik?" 3.

[131] Bill Clinton, "How We Ended Welfare, Together." The New York Times. August 21, 2006. Accessed December 04, 2017.

[132] Howard, *The Welfare State Nobody Knows,* 98.

[133] Howard, *The Welfare State Nobody Knows,* 99.

[134] Martha Ozawa, "The Earned Income Tax Credit: Its Effect and Its Significance." *Social Service Review* 69, no. 4 (December 1995): 564.

Clinton would go on to increase the minimum wage by 90 cents by the end of his first term, he ignored the advice of his Secretary of Labor, Robert Reich, who advocated for a stronger measure. Secretary Reich advised Clinton to index the new minimum wage to inflation, allowing it to grow with the rate of inflation. By not doing so, Clinton rendered the new wage standard impotent against inevitable increases in inflation and cost of living.[135] Clinton's administration likely considered other factors before putting their full weight behind the expansion of the EITC.

Christopher Howard, a Professor of Government at the College of William and Mary, offers a few reasons for the growth of the EITC program. Howard points out that EITC increases have historically passed in periods of divided government and are attractive for both parties to appeal to low-income voters. Howard also highlights that the EITC expansions in 1990 and 1993 were both part of omnibus budget acts, providing supporters with more points of leverage than a standalone bill.[136] The most salient lesson for welfare reformers however is that EITC advocates worked hard to distance the program from any association with welfare. This distance allowed members of both parties to embrace the tax credit under the guise of reform- not welfare spending.

To preempt any association with the loaded issue of welfare, proponents framed the EITC as the opposite of traditional welfare.[137] In addition, instead of targeting aid at non-working adults, they focused on working families.[138] The EITC is said to incentivize people to move off of welfare by rewarding their work and this "reward for work" tagline has resulted in bipartisan

[135] Liana Fox, "Indexing the minimum wage for inflation." Economic Policy Institute. Accessed December 04, 2017.; Michael J. Caballero, "The Earned Income Tax Credit: The Poverty Program That is Too Popular." *The Tax Lawyer* 48, no. 2 (1995): 449.

[136] Howard, *The Welfare State Nobody Knows*, 101-2.

[137] Anne L. Alstott, "The Earned Income Tax Credit and the Limitations of Tax-Based Welfare Reform." Harvard Law Review 108, no. 3 (January 1, 1995): 539.

[138] Howard, *The Welfare State Nobody Knows,* 103-4.

support for the program since its inception in 1975.[139] By promoting work, EITC supporters also believe that the tax benefit supports families, unlike direct assistance which invites untoward and nefarious behavior. Finally, EITC advocates claim that the program is easier to administer than long standing welfare programs because the EITC is part and parcel of the existing federal tax structure.[140] Although the EITC has enjoyed broad acceptance from both political parties, there are many skeptics of the program who decry its elevated status in American social policy.

Professor of Law at Yale University, Anne Alstott, criticizes the inflated stature of the EITC. Alstott argues that the EITC falls far short of its anti-poverty goals impacting the official poverty status of only 3.5 million adults and 1 million families.[141] She argues against the narrow workforce goals of the program and calls for welfare reforms that increase individuals' wellbeing and participation in society.[142] Alstott further criticizes the low-standard of "making work pay" and calls on renewed action for social programs which adequately raise the standard of living and mobilize more people out of poverty.[143] Others argue that while the EITC program helps the working poor, it does not do enough to get the non-working poor, working again. Unlike workfare requirements which mandate labor market participation, the EITC does not efficiently motivate workers to enter or reenter the workforce.[144]

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[139] Howard, *The Welfare State Nobody Knows*, 105-106.; Alstott, "The Earned Income Tax Credit and the Limitations," 533.

[140] Alstott, "The Earned Income Tax Credit and the Limitations," 533.

[141] Alstott, Anne L. "Why the EITC Doesn't Make Work Pay." *Law and Contemporary Problems* 73, no. 1 (2010): 296.

[142] Alstott, "Why the EITC Doesn't Make Work Pay," 297.

[143] Alstott, "Why the EITC Doesn't Make Work Pay," 312-3.

[144] Lawrence Mead, "Overselling the Earned Income Tax Credit." National Affairs. 2017. Accessed December 04, 2017.

Discussion

Answering the question of how the Democratic Party lost the battle over welfare requires a close examination of both the Party and its electorate for the entire span of the 20th century. Such a broad view unearths the many missed opportunities to create a comprehensive welfare system and the entrenched racism among the American populace which stymied equal policy and opportunity for all people. Through this analysis of three Democratic presidents, the emergence of a more centrist and conservative party, capable of undoing its own legislative achievements comes into focus. This discussion begins with President Roosevelt, known universally as the creator of the American welfare state, but also in part responsible for its many shortfalls.

President Roosevelt inherited the worst financial recession the country had ever known when he entered office in 1933. In response to the unemployment crisis, he created numerous public works programs putting millions of Americans back to work. Roosevelt also oversaw the enactment of the first federally administered direct assistance program, through Title V of the Social Security Act, Aid to Dependent Children. The shadow cast on his welfare legacy lay not in the enormous problem he received or in his immediate handling of the economic disaster, but in his inability to seize the moment to create a lasting federal jobs program or racially equitable social service system. Members of Roosevelt's inner circle like Harry Hopkins urged him to promote full employment legislation. Congress's resistance towards granting greater federal rights also inhibited progress. By not setting the precedent for federal intervention through a sustained jobs program in the early 20th century, Johnson had little precedent to build from when great need arose again.

Roosevelt's tepid approach towards racial equality would also come back to hurt the Democratic Party. By handing over administrative control over welfare benefits to states in the first days of the ADC, Roosevelt created an expectation for accommodation among Southern Democrats who sought the continued exploitation of African-American low-wage labor. Roosevelt's National Recovery Act also bolstered unions which had a long history of discriminating against blacks.[145] By looking the other way at discriminatory union practices, Roosevelt gave his silent affirmation. Racism and apathy among local union members persisted through the 1960s when local labor union support for Great Society reforms was noticeably mute. Roosevelt's ambivalence towards the race question ultimately undermined the egalitarian democracy he sought to strengthen. President Johnson would carry on to confront the issue of poverty with an anemic class consciousness that did not unite the races.

After President Kennedy's assassination, the American people gave President Johnson mandate to lead in his landslide victory in 1964. Johnson used the momentum to oversee sweeping civil rights laws and enter into a full-scale war in Vietnam. Domestic issues came to the fore shortly after his election as well, in the form of race riots and mounting economic frustration among blacks. A white backlash resulted as whites increasingly saw the War on Poverty as too myopically focused on urban or black issues. As mentioned in the preceding paragraph, the Democratic Party was also without a key ally for their economic platform, as support from local unions was near non-existent. Johnson's inability to quell rioting and provide blacks with meaningful opportunities as well as his inability to persuade whites of the Great Society's continued importance severely eroded his ability to lead.

Towards the end of his tenure, Johnson was increasingly forced to reckon and account for the mounting human and financial costs of war. Though public opinion consistently favored the

[145] "Getting to Know the Racial Views of Our Past Presidents: What about FDR?" *The Journal of Blacks in Higher Education*, no. 38 (2002): 44-46. doi:10.2307/3134193.

anti-communist war efforts, by 1967 support for escalation had reached its peak.[146] And within his own party, liberals were threatening to cut off Great Society aid if he did not end the war.[147] Towards the end of his life Johnson reflected on Vietnam: "that bitch of a war on the other side of the world" "killed the woman I really loved- the Great Society".[148] Although the Vietnam War is not entirely responsible for the shortfalls of Johnson's domestic goals, it did draw away millions if not billions in resources and alienated members of his own party who would have otherwise aligned with Johnson's civil rights and economic agenda.[149] If Johnson had truly wanted to extend the legacy of the New Deal programs, he might have listened more closely to his domestic advisers who called for a more sweeping restructuring of the Manpower program, higher taxes for expanded domestic funding, and a public jobs programs.[150] To this point, due to the inaction of the Roosevelt administration, Johnson had little precedent from which to launch a federal jobs program.

Although Johnson had accomplished a great deal towards alleviating poverty, including barring discrimination in the workplace and housing, increasing AFDC aid, and creating the Head Start program, Republicans framed these programs as symptomatic of a more endemic issue within poor (coded black) America. In particular, Republicans seized on the massive spike in AFDC rolls as a clear indication that Democratic Party policies had run afoul. Democrats were criticized for promoting dependence, a trait that is considered antithetical to American virtue.

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146 William L. Lunch and Peter W. Sperlich. "American Public Opinion and the War in Vietnam." *The Western Political Quarterly* 32, no. 1 (1979): 31.

147 Randall B. Woods, "The Politics of Idealism: Lyndon Johnson, Civil Rights, and Vietnam." *Diplomatic History* 31, no. 1 (2007): 16.

148 Mark Atwood Lawrence, "How Vietnam Killed the Great Society." The New York Times. September 22, 2017.; Zelizer, Julian E. "The Nation: Guns and Butter; Government Can Run More Than a War." The New York Times. December 29, 2001.

149 Noble, *Welfare As We Knew It*, 95-96.

150 Brown, *Race, Money, and the American Welfare State,* 360-361.; Weir, "The Federal Government and Unemployment," 179.

Fueled by the great promise and failure of the Great Society to combat poverty and then by the stagflation endured during President Carter's tenure, by the 1980s the Republican Party was ready to shape the national discourse. It also had a new leader, the "Great Communicator", to convey its message, Ronald Reagan.

President Reagan's ascension to the White House set in motion a backlash against big government and a steady retrenchment of social programs. With the backing of politically mobilized Evangelical Christians, the Republican Party convinced America that it was the moral party and with this moral high ground they sought to discredit social spending, especially on welfare. By the 1980s, most of America had also already begun to associate the GOP as the stronger party on the economy. Leveraging his party's moral and economic legitimacy, Reagan cut AFDC, Food Stamps, and Medicaid to their lowest levels since the 1930s. Reagan also leveraged a more insidious element within his party, a propensity for racism.

After the War on Poverty was waged, in the minds of many Americans blacks came to symbolize the failure of big government intervention. Worse still, African-Americans were perceived as lazy and therefore undeserving of hard-earned taxpayer dollars.[151] Instead of putting this stereotype to bed, Reagan capitalized on it to maximize his assault on entitlements. By labeling the fraudulent criminal Linda Taylor as a "welfare queen", Reagan created an association between all black women and welfare fraud. The weight of Reagan's remark is not quantifiable but it goes without saying that the president's words affect the consciousness of a nation. Undoubtedly, Reagan's use of "welfare queen" reinforced negative assumptions about welfare's corrosive impact and African Americans' supposed abuse of the system, creating a pernicious stereotype for black women and heads of households especially.

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[151] Gilens, *Why Americans Hate Welfare*, 77.

White voters' enchantment with President Reagan became the envy of the Democrat Party. His new legion of "Reagan Democrats" fueled a faction within the Democratic Party who sought a renewed alliance with white working class voters. This "New Democrat" coalition took a cue from Reagan's playbook and embraced white voters to the exclusion of everyone else by playing down entitlement spending and promoting business interests.[152] Their most successful political product was future President Bill Clinton who distanced himself from typical liberals and pledged to put to an end to welfare.

Entering the White House in 1992, Clinton had promises to fulfill. He characterized himself as a New Democrat, nothing like the previous generations of tax and spend liberals. Clinton sought and won tougher punishments for crime, deregulation of banks, and a complete overhaul of the welfare system. His breed of politics reflected the public mood of the day which was more trusting of conservative approaches to the economy and deeply skeptical about direct cash transfers like AFDC.[153] With the policy groundwork laid before him by Reagan and the intense pressures from Republicans in Congress to sign a welfare reform bill, Clinton calculated the political exigencies. Ultimately, with just three months before the election, he made good on his campaign promise and signed the Personal Responsibility and Work Opportunity Reconciliation Act into law. The impact of the law was swift and dramatic; AFDC, now TANF, caseloads fell by over 50 percent in the span of less than a decade. Workfare requirements and time restrictions also forced recipients, largely women, into the low-wage economy at the expense of potentially higher wage work.

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[152] Piven and Cloward, *The New Class War*, 195.

[153] Carcasson, "Ending Welfare as We Know It," 656.; Skocpol, "A Partnership with American Families," 105.

At the same time that Clinton contemplated welfare reform for the stigmatized AFDC program, he was at work expanding the EITC. Under Clinton, the EITC grew more than under any other president, surpassing both TANF and Food Stamps in its size and cost. The underlying philosophy behind the EITC is that the program incentivizes and rewards work. Yet, the extent to which these claims are true and whether the costs outweigh benefits of the program are inconclusive. What is clear is that the EITC has been embraced by both parties for over four decades. On top of this, surveys show the public also broadly supports the EITC.[154] For a Democrat like Clinton, who erred on the side of fiscal conservatism and centrism, expanding the EITC was an easy choice. However, for the poor and especially the non-working poor, the EITC alone cannot lift people out of poverty. The EITC may mitigate the burdens of poverty, but it does not do enough to reduce the overall rates of poverty and it does not do enough to raise the overall standard of living.[155]

Three main obstacles emerge when examining the development and retrenchment of the welfare system through the perspective of the Democratic Party: lack of party unity, ineffective messaging, and a nonexistent federal employment strategy. These issues have undermined the presidencies of Roosevelt, Johnson, and Clinton resulting in the persistent economic degradation of working class and unemployed Americans. They hinder the party's ability to alleviate poverty and enact an effective welfare strategy.

Achieving party unity eluded the Democratic Party since Roosevelt's administration due to opposition from Southern Democrats who fought to preserve their low-wage black labor. The Southern faction continued to dog Johnson's White House when their reluctance towards War on Poverty spending ended in permanent divisions and defections to the GOP. During the Great So-

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[154] Gilens, *Why Americans Hate Welfare*, 207-208.
[155] Alstott, "Why the EITC Doesn't Make Work Pay," 312.

ciety period, the Party also lost a key ally in organized labor, making it that much harder for Congress to drum up support within the public. Underlying the racially charged divisions of the early 20th century and the ideological disputes of the 1990s was the Democrat's inability to cultivate a strong class consciousness in their voters. By failing to unite voters on the basis of class concerns, the Party was vulnerable to racial divisions and the appeal of neoliberalism. Compounding the Democrat's problems at achieving party unity was their ineffectual messaging.

Along with failing to create a convincing class narrative, the Democratic Party missed numerous other opportunities to control the message. Beginning with the Great Society, some scholars maintain that Johnson's grandiose promise to eradicate poverty was itself problematic. By imposing lofty expectations on his domestic agenda, it was only logical that all expectations would not be met, leaving the public frustrated. The lesson learned was to aim for incremental goals and thereby keep the public's trust. Secondly, in response to the riots which ravaged cities during the latter half of the 1960s, Johnson offered no satisfactory response. Further hastening the white backlash against his Great Society was the perception among whites that the domestic spending was too narrowly aimed at inner cities. By failing to counter this perception or convince whites of the spending's effectiveness, the legitimacy of the War on Poverty waned.

Again during the stagflation of the 1970s, Democrats struggled to explain the phenomenon when they could have pointed to the diminished wage growth for average Americans. By falling silent in the 1970s, they effectively handed the Republicans a microphone for their attack on government spending.[156] In response to Reagan's rhetoric, the party was also conspicuously silent. Afraid to alienate middle class voters, Democrats offered no vigorous defense of the social

[156] Schwarz, *America's Hidden Success*, 122-123.; Theodore Marmor and Jerry Mashaw. "The Case for Social Insurance." In *The New Majority: Toward a Popular Progressive Politics*, edited by Stanley B. Greenberg and Theda Skocpol. New Haven: Yale University Press, 1997: 83.

programs for the poor which Reagan's budget cuts targeted.[157] Seeing the political advantages of following in Reagan's footsteps, Clinton mimicked Reagan's draconian position on welfare reform on the campaign trail. Thereafter as President, Clinton was taken to task on his promises by the Republican Congress.

Finally, consistent among all three presidents was their lack of initiative to bring about a federal public jobs program. For Roosevelt, his enlightenment and embrace of workers rights came too late in his presidency. Although he outlined the citizen's "right to a job" in his "Economic Bill of Rights" address, he was not able to see it through nor was his New Deal coalition in Congress who pursued the Full Employment Act in 1946. Johnson was similarly reluctant in his leadership, preferring to keep states in control of their employment strategies. What jobs Johnson sought to bring to the inner-cities were poorly funded and designed, and may have elicited more resentment and negative publicity than positive outcomes. Finally, Clinton's attempts to buoy the workforce came through indirect, half measures. The mandatory workfare requirements of PRWORA legislation compelled people into low-wage jobs and the incentives within the EITC have done little to remediate the root causes of poverty or joblessness.

To create a more just, proactive, and efficient welfare state, the Democratic Party must pursue a federal employment strategy. This policy must guarantee citizens the "right to a job" promised by President Roosevelt nearly a century ago. Employment opportunities must also be made available to all Americans to preempt any perception of bias which the War on Poverty suffered from.[158] It must also be implemented incrementally to sidestep accusations of unfulfilled

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[157] Piven and Cloward, *The New Class War*, 195-196.

[158] William Julius Wilson, "Affirmative Opportunity." In *The New Majority: Toward a Popular Progressive Politics*, edited by Theda Skocpol and Stanley Greenberg. New Haven: Yale University Press, 1997: 74.; Howard, *The Welfare State Nobody Knows,"* 94.

promises. If pursued strategically and conveyed with effective messaging and the full support of the Party, a public jobs program could become the new cornerstone of American social policy.

Conclusion

To enact a comprehensive and effective anti-poverty strategy, the Democratic Party must search outside of the confines of traditionally popular policies like the EITC or workfare welfare reform. They must return to the early platform outlined by President Roosevelt and create a federal job guarantee. The Party must also consider complementary social programs for which an extensive body of literature already exists: paid family leave, expanded child-care subsidies, and reforms in unemployment and disability insurance.[159] By providing people with the social services they need to successfully navigate the workforce and care for their families, these programs would produce an equitable and upwardly mobile society. To move forward with any hope of reviving the American welfare state, the Democratic Party must look inward and reflect on past failures. This process begins with turning historical weaknesses into strengths and addressing three key challenges: party unity, messaging, and a federal job guarantee.

[159] Wilson, "Affirmative Opportunity," 313.

Chapter 2: The Federal Government: A Boon or Bust for American Homeownership?

Introduction

Two centuries ago, the French sociologist Alexis de Tocqueville observed a nascent nation, the United States of America, with an air of admiration. Tocqueville was particularly impressed by the country's esteem for property rights and high level of civic engagement. Writing in *Democracy in America* in 1835, Tocqueville saw the two foundations of democratic society as inextricably linked, "The government of democracy brings the notion of political rights to the level of the humblest citizens, just as the dissemination of wealth brings the notion of property within the reach of all the members of the community; and I confess that, to my mind, this is one of its greatest advantages".[160] In a society where feudal ties never existed, property rights for average, predominantly white citizens, became a binding agent of community ethos. The right to own property encouraged New Englanders to take part in civic life because they were personally invested in the outcomes of town decisions. Fast forward two hundred years to the 21st century, social scientists continue to observe the positive financial and civic impacts of property ownership, particularly homeownership. The present dilemma for modern America is how to make the advantages of homeownership available to all Americans.

The goal of homeownership is foundational to the American Dream. However, since the 1970s the rate of Americans achieving homeownership has remained flat at around 64%.[161] Examining this 64% figure reveals a fuller picture of how homeownership rates are strongly correlated with income level: for households earning or exceeding the median income in 2020, 78.8%

[160] Alexis de Tocqueville, *Democracy in America*. Edited by Harvey C. Mansfield and Delba Winthrop. Chicago: University of Chicago Press, 2000, 667.

[161] "Homeownership Rate for the United States." Federal Reserve Bank of St. Louis, May 28, 2020. https://fred.stlouisfed.org/series/RHORUSQ156N.

owned a home, for households below the median income only 51.8% owned a home.[162] Though the rate of low-income homeownership has increased by nearly 4 percentage points over the past forty years, it lags far behind the 78.8% rate of middle and upper income earners. This is problematic because home assets are a key element of upward mobility. And for the majority of Americans, specifically lower and middle income earners, homes represent their largest asset. In 2013, homes comprised 44% of middle income households' wealth and 48% of lower income households' wealth.[163] Homeownership is therefore the single greatest means of building wealth and financial security for the majority of Americans.

Wealth accumulation occurs through homeownership in a variety of ways. For instance, homes typically appreciate over time and grow in value. Additionally, homeowners can leverage the equity in their home to pay for improvements, children's education, to start a small business, or deal with an emergency.[164] Using home equity in this way is considered "cultivating" or growing more wealth and further stabilizing one's household. In addition, housing wealth serves as a "protector" by insulating owners from the costs of inflation over time, given that most mortgages have fixed-rate terms.[165] The benefits of paying a mortgage versus paying rent add up over time, with the average net worth of a homeowner totalling $195,400 compared to the average net

[162] "Table 17. Quarterly Homeownership Rates by Family Income: 1994 to Present." Accessed April 4, 2020. https://www.census.gov/housing/hvs/data/histtabs.html.

[163] Paul Taylor, Rakesh Kochhar, Richard Fry, Gabriel Velasco, and Seth Motel, "Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics." Pew Research Center, July 26, 2011. https://www.pewresearch.org/wp-content/uploads/sites/3/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf.

[164] Colin McArthur and Sarah Edelman, "The 2008 Housing Crisis." Center for American Progress, April 13, 2017. https://www.americanprogress.org/issues/economy/reports/2017/04/13/430424/2008-housing-crisis/.

[165] Zhu Xiao Di, Yi Yang, and Xiaodong Liu, "The Importance of Housing To the Accumulation of Household Net Wealth." Joint Center for Housing Studies of Harvard University, November 2003. https://www.jchs.harvard.edu/sites/default/files/w03-5_di.pdf.

worth of a renter, $5,400; a figure 36 times as large.[166] Homeownership therefore remains the largest and most viable means for building wealth in the United States.

While the financial advantages of homeownership are well-documented, owning a home also carries enormous financial risks. In general, homeowners encounter unexpected maintenance costs and the risks of foreclosure and eviction. With foreclosure, homeowners may experience the loss of other assets and long-term damage to their credit. It is important to account for these risks in the context of low-income homeowners especially, as low-income households incur the highest levels of risk. Low-income owners are more likely to pay a greater portion of their household income in housing costs and they are more likely to be subject to predatory or volatile lending products, both of which correlate to higher rates of foreclosure.[167] Homeownership only remains an advantageous financial strategy if households can weather financial downturns and see the long-term gains on their investments.[168]

In spite of the risks inherent in homeownership, owning a home remains the foremost lever for increasing household wealth for the vast majority of Americans. The question that now remains is, how can the country increase the rates of homeownership for those at the lowest rung of the income ladder, particularly people of color, who are most in need of cultivating wealth? If more proactive measures to turn renters into homeowners are not taken, intergenerational poverty will persist. And if the history of racial discrimination in the housing market is not addressed, the black-white wealth gap only runs the risk of worsening.

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[166] Matthew Desmond, "How Homeownership Became the Engine of American Inequality." The New York Times, May 9, 2017. https://www.nytimes.com/2017/05/09/magazine/how-homeownership-became-the-engine-of-american-inequality.html.

[167] Rebecca M. Blank, Michael S. Barr, Raphael Bostic, and Kwan Ok Lee, "Homeownership: America's Dream?" In *Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Households*. New York: Russell Sage Foundation, 2009, 14 & 28.

[168] Laurie S. Goodman and Christopher Mayer, "Homeownership and the American Dream." *Journal of Economic Perspectives* 32, no. 1 (2018): 31–58. https://doi.org/10.1257/jep.32.1.31, 32.

For the reasons stated above, it is imperative that the federal government take new steps to grow household wealth for all Americans. The federal government can do this by taking two first steps. First, the government must further reform the mortgage interest tax deduction (MID), a policy which inflates housing costs and does little to incentivize new homeowners. Reforming the MID could bring in tens of billions of dollars in new revenue each year to fund existing and start new programs to support first-time homeowners.

Secondly, the federal government needs to rethink its approach to the Section 8 Housing Choice Voucher (HCV) program. The temporary housing goals of the HCV program are undermined by inefficiencies, challenges to find willing landlords, inflated or unaffordable housing costs, and little evidence of upward mobility gains for participants. Instead of providing mediocre temporary housing support, the government should do more to help turn prospective families into homeowners. This would require expanding the Section 8 Home Ownership Program and creating more robust housing counseling and savings programs nationwide. Taken together, these reforms could provide a permanent housing solution, build wealth, and create secure financial futures for millions of families.

Literature Review

In the review of the literature on federal housing policy, specifically subsidized housing and the mortgage interest tax deduction, there are two fairly demarcated camps: progressives and conservatives. This is to be expected in a discussion of major spending programs and one of the largest tax deductions in the tax code. In general, conservatives criticize the housing assistance programs as costly while progressives call for expanding assistance. There are decisive disagreements on the issue of the MID as well, with conservatives seeking to protect its stance in the tax code while some progressives seek to end or limit its scope.

Conservative School of Thought

Many conservatives call for limited federal government intervention into housing policy and limited taxation on personal property. Conservatives defend the mortgage interest tax deduction as an "integral part of a tax-neutral system", keeping borrowers and lenders on an equal playing field. On top of this tax-neutrality, proponents of the MID argue it spurs investment which creates job and wage growth.[169] Conservatives do not view the MID as a subsidy to homeowners but as an intervention which creates symmetry between lenders and borrowers, one which would not be necessary if lenders were not taxed for their gains on interest revenue in the first place.[170]

Conservatives further criticize federal housing allowance programs as an entitlement which is inefficient and creates dependency. They cite increasing lengths of stay among program participants and overhousing within rental units as indicators of growing government dependence and inefficient economic spending.[171] On the issue of privatization of government housing programs, conservative views are more nuanced however.

While privatization of government programs is often considered a laudable conservative goal, this is not the case with the privatization of housing policy. Some conservatives criticize the Low-Income Housing Tax Credit (LIHTC) as enabling corporate welfare. The Heritage Foundation argues that the program does more to enrich private investors than mitigate the housing crisis, citing research which finds that only 35% of the 8 billion dollar LIHTC translates to

[169] Curtis Dubay. "The Proper Tax Treatment of Interest." The Heritage Foundation, February 19, 2014. http://thf_media.s3.amazonaws.com/2014/pdf/BG2868.pdf, 4.

[170] Dubay, 4.

[171] Howard Husock, "How Housing Assistance Leads to LongTerm Dependence—and How to Fix It." The Heritage Foundation, 2017. https://www.heritage.org/sites/default/files/2017-07/052017_IndexofCultureandOpportunity_Sub Housing.pdf, 52-53.

decreased rent burdens.[172] They argue that the LIHTC creates unfair competition within the private market by disincentivizing the creation of completely private, unsubsidized units which might otherwise be produced.[173]

Progressive School of Thought

Unlike conservatives, progressive policy makers believe in direct federal intervention in housing policy. The answer to what form that direct federal aid should take varies widely. Some reformers promote expanding down payment assistance and housing counseling programs to raise homeownership rates, while others take issue with the idea of homeownership as a goal in and of itself. Still others believe in expanding existing programs like the HCV, to create a kind of Universal Housing Voucher.

Jenny Schuetz, of the Brookings Institution, dismisses the fixation on homeownership as a goal for all Americans, arguing that more aid should be directed to renters. Schuetz points to the overall demographic trends in the declining homeownership rates and the recent millennial trend of waiting later in life to start families and buy homes as reasons to refocus attention on helping renters. She highlights the barriers that people of color face in engaging with the housing market as well, from discrimination in the home-buying process to the disproportionately negative impact of the 2009 housing crisis experienced by people of color.[174]

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[172] Adam Michel and Norbert Michel and John Ligon, "To Reduce Corporate Welfare, Kill the Low-Income Housing Tax Credit." The Heritage Foundation, March 28, 2018. https://www.heritage.org/sites/default/files/2018-03/IB4832.pdf, 2.

[173] Michel, Michel, Ligon, 3.

[174] Jenny Schuetz. "Renting the American Dream: Why Homeownership Shouldn't Be a Prerequisite for Middle-Class Financial Security." The Brookings Institution, February 13, 2019. https://www.brookings.edu/blog/up-front/2019/02/13/renting-the-american-dream-why-homeownership-shouldnt-be-a-pre-requisite-for-middle-class-financial-security/.

Affordable rental housing advocates propose that the federal and state governments should revise zoning regulations to promote more multi-family housing development.[175] To bring new housing developments to life, the Low-Income Housing Tax Credit (LIHTC) is frequently championed with bipartisan support.[176] The LIHTC is currently the largest federal subsidy program for creating new rental housing units, having produced 47,511 properties and over 3.13 million rental units from the year of inception in 1987 through 2017.[177] Advocates contend the LIHTC incentivizes private business interest in what would be otherwise financially untenable projects for private investors alone.[178]

Other progressives promote the expansion of the Housing Choice Voucher program, which is currently the largest direct federal intervention program serving over 2 million households.[179] Given the fact that housing vouchers are not an entitlement program however, like Medicaid or Medicare, millions across the country remain on waiting lists. In fact, three in four eligible families do not receive any housing assistance.[180] And waiting lists can last years or decades.[181] Some lists are even closed indefinitely, as is the case in Washington D.C.[182]

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[175] Jenny Schuetz and Tiffany Ford. "Workforce Housing and Middle-Income Housing Subsidies: A Primer." The Brookings Institution, October 29, 2019. https://www.brookings.edu/blog/up-front/2019/10/29/workforce-housing-and-middle-income-housing-subsidies-a-primer/, 7.

[176] "Tax Extenders Law Permanently Sets LIHTC Credit Rate." National Low Income Housing Coalition. National Low Income Housing Coalition, December 21, 2015. https://nlihc.org/resource/tax-extenders-law-permanently-sets-lihtc-credit-rate.; Department of Housing and Urban Development, February 21, 2019. https://www.hud.gov/press/press_releases_media_advisories/HUD_No_19_014.

[177] "Low-Income Housing Tax Credits." Low-Income Housing Tax Credits, May 24, 2019. https://www.huduser.gov/portal/datasets/lihtc.html.

[178] "The Effects of the Low-Income Housing Tax Credit (LIHTC)." Wagner School of Public Service, May 2019. https://furmancenter.org/research/publication/the-effects-of-the-low-income-housing-tax-credit-lihtc

[179] Maggie McCarty. "Section 8 Housing Choice Voucher Program: Issues and Reform Proposals." Congressional Research Service, 2014.

[180] Matthew Desmond. *Evicted*. Crown/Archetype, New York, 2016, 59.

[181] Desmond, *Evicted*, 310.

[182] "DCHA's Waitlist Remains Closed." District of Columbia Housing Authority, March 20, 2019. https://www.dchousing.org/doc.aspx?docid=20190320124626167378&AspxAutoDetectCookieSupport=1.

In order to achieve the goal of safe rental housing, new legislation banning "source of income" discrimination in housing is being touted and even enacted in states like California. This kind of law bans landlords from rejecting potential tenants based on their source of income. The goal of this nondiscrimination law is to improve the effectiveness of HCV programming and reduce potential racial or class discrimination in the rental search process.[183]

Finally, some progressive reformers want to expand the definition of who should receive federal subsidies. In addition to federal intervention for low-income households, they call for more subsidies for middle-income households. By removing the MID and local property tax deductions, this new federal revenue would pay for expanded down payment assistance programs. One such program is the American Dream Downpayment Initiative, which currently only serves households making less than 80% of the local Adjusted Median Income (AMI).[184]

Attracting middle-income households through housing subsidies can generate a wider and more reliable property tax-base for a city, may enhance the social capital and networks within neighborhoods, and encourage those with stable employment to become home-owners in lower-income neighborhoods.[185] However, potential drawbacks include the possibility of displacing lower-income households, disincentivizing labor market mobility by tying one's occupation to one's home, and inevitable administrative costs.[186]

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[183] "New 2020 Law #4: No More Discriminating against Renters Who Have Housing Vouchers." Senator Holly Mitchell, December 11, 2019. https://sd30.senate.ca.gov/news/news/2019-12-09-new-2020-law-4-no-more-discriminating-against-renters-who-have-housing-vouchers.

[184] Kurt Paulson. "The Goldilocks Dilemma of Moderate-Income Housing Subsidies: Finding the 'Just Right' Amount for the Missing Middle." *Cityscape* 19, no. 1 (2017): 245–52, 249.

[185] Schuetz, "Workforce Housing," 4.

[186] Schuetz, "Workforce Housing," 7.

The Black-White Homeownership Gap

Within the progressive school of thought, it is vital as well to focus on the black-white homeownership gap. Many researchers have found that federal government policies have had a disproportionately negative impact on people of color. From the institution of slavery and the unfulfilled promises of the Freedman's Bureau to the subprime mortgage loan crisis in 2009 and still ongoing redlining tactics, African-Americans continue to face discriminatory obstacles in the homebuying crisis.[187] The result is a vast racial gap in homeownership, with lowest rates of all racial groups experienced by African-Americans at 41 percent. This number stands in stark contrast to the rate of white homeownership, who own at a rate 71 percent; a gap that has tripled from 8 percentage points in 1900 to 26 percentage points in 2016.[188]

Sociologists Melvin Oliver and Thomas Shapiro trace the racist beginnings of the Federal Housing Authority (FHA) in 1934 when the agency created advisory maps for loan officers. The Home Owners Loan Corporation (HOLC) maps designated racially-mixed and all-black neighborhoods as undesirable, with the net result being many fewer loans made available to these neighborhoods. Fewer loans translated into fewer black home-owners and a dearth of home improvement funds to improve the housing quality in black and brown neighborhoods.[189] The federal government's advocacy of whites-only neighborhood covenants and racist allocation of GI benefits after World War II also contributed to lower rates of black homeownership.[190]

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[187] Richard Rothstein, *The Color of Law: a Forgotten History of How Our Government Segregated America*. New York: Liveright Publishing Corporation, a division of W.W. Norton & Company, 2018, 112-113.

[188] Skylar Olsen, "Black and White Homeownership Rate Gap Has Widened Since 1900," April 13, 2018, https://www.zillow.com/research/homeownership-gap-widens-19384/, 1; Raj Chetty et al., "Race and Economic Opportunity," Appendix VIII.

[189] Melvin L. Oliver and Thomas M. Shapiro, *Black Wealth/White Wealth*. New York: Routledge, 2006, 17.

[190] Rothstein, 167.

In present day, FHA-era redlining tactics still undermine the ability for people of color to buy homes in certain areas. The Center for Investigative Reporting (CIR) revealed in 2018 that modern day redlining persisted in 61 U.S. cities, with the highest concentration in Southern cities. Controlling for nine social and economic factors in their analysis, CIR found that people of color were significantly more likely to be denied a home loan compared to their white counterparts.[191] In spite of federal regulations and in some cases with the direct aid or complicity of the federal government, African-Americans and other communities of color face undue burdens in the homeownership process.

Gaps in the Literature

Within the existing literature on federal housing policy, there are many compelling arguments to be found on both sides of the ideological debate. Within the conservative camp, there is reason to investigate inefficiencies in the nation's largest and longest standing approach to subsidized housing. It is possible that the HCV program has over the past fifty years become bureaucratized and stagnant, resulting in increased costs and length of participant stays but unable to meet the lofty aims of upward social mobility envisioned at its inception. To that end, it is important to question the very goals of subsidized rental housing advocates. Of course providing temporary shelter is a necessary government intervention for people in crisis and members of society unable or interested in becoming homeowners. But there is mixed, if not underwhelming research supporting the continuation of the nation's largest subsidized housing program. There-

[191] Aaron Glantz and Emmanuel Martinez, "Modern-Day Redlining: Banks Discriminate in Lending." Reveal. Center for Investigative Reporting, February 15, 2018, https://www.revealnews.org/article/for-people-of-color-banks-are-shutting-the-door-to-homeownership/, 5.

fore, it is vital to consider alternative housing solutions, to provide not only temporary shelter but permanent housing and financial stability for low-income families.

Findings

Housing Voucher Program Findings

Since the Nixon administration, the federal government has devolved its authority over affordable housing to local municipalities, creating the project and tenant-based housing vouchers programs which predominate housing assistance today. In the 2019 budget year, the Department of Housing and Urban Development (HUD) spent $11,876,929 billion on Project-Based Housing Assistance (PBRA) and $22,899,472 billion on Tenant-Based Rental Assistance (TBRA).[192] PBRA provides low-income residents with housing tied to a specific housing unit and the TBRA provides low-income residents with a Section 8 Housing Choice Voucher which tenants can use to shop for housing on the free rental market. For a combined total of $34,776,401 billion dollars, these two programs provide housing to 3.5 million families with the largest portion, 2.3 million households served by vouchers.

Under general eligibility requirements, family income may not exceed 50% of the median income for the metropolitan area and tenants must pay 30% of their income towards rental costs.[193] All assistance is administered through residents' local housing authority, while HUD determines the ceiling on rental payments based on calculations of local Fair Market Rent or

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[192] "Project-Based Rental Assistance 2020 Summary of Resources ." Department of Housing and Urban Development. Accessed April 1, 2020. https://www.hud.gov/sites/dfiles/CFO/documents/2020CJ-PBRA.pdf.; "Tenant-Based Rental Assistance 2020 Summary of Resources ." Department of Housing and Urban Development. Accessed April 1, 2020. https://www.hud.gov/sites/dfiles/CFO/documents/2020CJ-TBRA.pdf.

[193] "Housing Choice Vouchers Fact Sheet." U.S. Department of Housing and Urban Development. Accessed April 1, 2020. https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/about/fact_sheet.

Small Area Fair Market Rent. Additionally, landlords must comply with rules of HCV administration and as noted earlier, there is no federal law requiring landlords to accept HCVs.

Turning our focus to Housing Choice Vouchers, in the early years of the program liberal advocates argued that the vouchers empowered families to maximize their housing and move to areas of better opportunity. Pro-voucher reformers promoted the idea of deconcentrating the poor and enabling poor families to experience the same social capital and public infrastructure that their middle-class neighbors enjoyed.[194] The U.S. Department of Housing and Urban Development's research on the HCV program finds that participants experience reduced rates of homelessness, crowding, independent living situations, increased expenditures on food.[195] Voucher recipients were also more likely to move out of their baseline Census tract indicating greater mobility; however, overall quality of housing did not improve compared to the control group.[196]

More recent research on the Moving to Opportunity (MTO) program has also revealed potential positive outcomes for children of voucher recipients although the MTO program represents a fraction of HCV program participants. In brief, the MTO program provides HCVs to participants with the requirement that the vouchers are used in areas with poverty rates below 10 percent. Five local housing authorities participated in the 10 year MTO demonstration, beginning in 1994, with 4,604 families participating. Previous research has found MTO participation had no positive effect on adults' income, yet children under the age of 13 who participated in the

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[194] Allen Hays, R, *The Federal Government & Urban Housing*. Albany, NY: State University of New York Press, 2012, 143.

[195] Gregory Mills et al., "Effects of Housing Vouchers on Welfare Families" (U.S. Department of Housing and Urban Development Office of Policy Development and Research, September 2006), https://www.huduser.gov/publications/pdf/hsgvouchers_1_2011.pdf, 131-132.

[196] Mills et al., "Effects of Housing Vouchers on Welfare Families," 66.

MTO experienced greater annual earnings as adults than their control group peers.[197] What this reveals is that for young children, moving to lower poverty areas has positive income effects later in life.

It is clear that HCV programs provide temporary housing, reduce homelessness rates, alleviate household costs, and that children who are able to move into lower poverty areas reap income benefits later in life. However, the majority of voucher leavers do not enjoy the upward mobility initially idealized at the program's outset. Additionally, though research is limited on the experience of people after they exit housing assistance programs, what evidence is available raises questions about the benefits and long-term impact of these programs. In 2014, the Urban Institute analyzed the experience of 1,142 MTO program participants who had recently exited the HCV program. In brief, the MTO program provided HCV holders with housing counseling to help low-income families move into low-poverty areas. Urban Institute researchers grouped housing assistance "leavers" into two groups: positive leavers (52%) and negative leavers (48%). The study took place two years after participants left the MTO program.

Researchers found that participants who left the assistance program for positive reasons such as marriage or income gains, reported a median income of $37,865 while leavers who left the program for negative reasons such as lease violations, eviction, or inability to find an apartment reported a median income of $13,950.[198] Even the positive leavers who reported an income advantage of $23,915 over negative leavers, still earned $15,792 less than the U.S. median in-

[197] Raj Chetty, Nathaniel Hendren, and Lawrence F. Katz, "The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment," *American Economic Review* 106, no. 4 (April 2016), https://doi.org/10.1080/15582159.2016.1172911, 871-872.

[198] Robin Smith, Susan Popkin, Taz George, and Jennifer Comey, "What Happens to Housing Assistance Leavers?" Urban Institute, June 2014. https://www.urban.org/sites/default/files/publication/32666/413163-What-Happens-to-Housing-Assistance-Leavers-.PDF, 12.

come in 2014 ($53,657).[199] Of the 52% who left the MTO program on positive terms, many had purchased homes in the period since. However, in qualitative interviews they revealed economic vulnerabilities such as: struggling to make payments on interest-only loans, home purchases in depreciating neighborhoods, and difficulties affording food or utility payments.[200]

Other early critics of the HCV program viewed vouchers as a retrenchment of the federal government and a means of "throwing the poor back onto the tender mercies of the private landlord". Still others feared that private rental prices would become inflated with the introduction of housing vouchers.[201] Both concerns rest on the new power dynamic emerging. Instead of HCV holders dealing with a theoretically accountable federal government, now renters had comparatively little leverage with which to lodge their complaints against private landlords. Recent research has borne out many of these privatization concerns.

In a 2016 analysis of HCV holders, Matthew Desmond and Kristin Perkins observed this overcharging phenomenon in Milwaukee, Wisconsin. Desmond and Perkins found that voucher households were charged between $51 to $68 more per month than unassisted households. In total, the overcharging of HCV holders amounted to $3.8 million dollars.[202] Additional research has shown that raising the rent ceiling uniformly for HCVs in an attempt to allow HCV holders access to more-expensive and theoretically higher- quality housing did not have the intended effect. Raising HCV ceiling limits was found to have no positive impact on housing unit or neighborhood quality, but did result in higher rental prices for the neighborhood.[203]

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[199] "Income and Poverty in the United States: 2014." The United States Census Bureau, July 25, 2018. https://www.census.gov/library/publications/2015/demo/p60-252.html.

[200] Smith et al., 21.

[201] Hays, 145.

[202] Desmond and Perkins, 138.

[203] Robert Collinson and Peter Ganong, "How Do Changes in Housing Voucher Design Affect Rent and Neighborhood Quality?" *American Economic Journal: Economic Policy* 10, no. 2 (2018): 62–89. https://doi.org/10.1257/pol.20150176, 68.

Another issue related to the privatization of public housing is the ability of landlords to decline to accept vouchers. Recent studies have found that private landlords will not accept HCV holders due to numerous factors: mandatory income requirements, racial and social stigmas, inspections, and local housing authority bureaucracy.[204] Although laws banning source of income discrimination have shown marked increases in HCV acceptance rates, since there is no federal law in most cities and states, it remains legal for landlords not to accept voucher holders.[205]

A final leading issue related to the privatization of public housing is that HCV holders are frequently priced out of highly-sought after neighborhoods, relegating them to higher-poverty areas.[206] In an effort to provide HCV holders with access to higher quality neighborhoods, HUD started the Small Area Fair Market Rent (SAFMR) program which determines voucher amounts based on private rental costs according to the more localized measure of zip codes within a Fair Market Rent area. In its first report on the efficacy of the SAFMR program, HUD studied 7 of the 24 participating local housing authorities (LHAs). It found that in all seven of the LHAs, SAFMRs increased voucher holders' access to higher opportunities neighborhoods.[207]

Returning to conservative criticism of federal housing policy, discussed previously in the literature review, many argue that assistance is not an efficient investment and invites moral hazard. Specifically, critics argue that vouchers distort housing decisions by prohibiting voucher

[204] Philip M. E. Garboden, Eva Rosen, Stefanie Deluca, and Kathryn Edin, "Taking Stock: What Drives Landlord Participation in the Housing Choice Voucher Program." *Housing Policy Debate* 28, no. 6 (2018): 979–1003. https://doi.org/10.1080/10511482.2018.1502202.

[205] Mary Cunningham, Martha Galvez, Claudia Aranda, Rob Santos, Doug Wissoker, Alyse Oneto, Rob Pitingolo, and James Crawford. " A Pilot Study of Landlord Acceptance of Housing Choice Vouchers." U.S. Department of Housing and Urban Development, September 2018. https://www.huduser.gov/portal//portal/sites/default/files/pdf/Landlord-Acceptance-of-Housing-Choice-Vouchers.pdf, 5.

[206] Ann Owens, "Housing Policy and Urban Inequality: Did the Transformation of Assisted Housing Reduce Poverty Concentration?" *Social Forces* 94, no. 1 (September 2015): 325–48. https://doi.org/10.1093/sf/sov069, 342.

[207] Kimberly Burnett, Tanya de Sousa, Meryl Finkel, and Samuel Dastrup. "Small Area Fair Market Rent Demonstration Evaluation Final Report." U.S. Department of Housing and Urban Development, August 2018. https://www.huduser.gov/portal/sites/default/files/pdf/SAFMR-Evaluation-Final-Report.pdf, 60.

holders from living with others, outside of the family members on their voucher.[208] Howard Husock, of the Manhattan Institute, cites that 15% of public housing recipients and 20% of HCV holders are "overhoused", meaning their apartments have empty bedrooms.[209]

Conservatives also highlight overspending for subsidized housing as another example of inefficiency. They argue that cash payments in lieu of rent payments have shown that when assistance recipients are given the freedom to choose how to spend their money, they spend more efficiently than the government. In a 1970s HUD Experimental Housing Allowance Program, participants were given cash payments instead of rent payments; in turn, tenants chose to spend less on housing costs and repairs compared to the default program, leading to the conclusion that subsidy levels could be reduced without injuring tenant well-being.[210] Another inefficiency cited is the administrative cost of the HCV program, calculated annually at $840 per household.[211]

Finally, conservative critics also cite the increasing length of stay in subsidized housing as an indication of increasing government dependence. A 2016 HUD report found that the average length of stay for all groups receiving housing assistance increased since a 2009 report: with the length of stay for HCV holders increasing from 7.5 years to 9.1 years and the length of stay for project-based tenants increasing from 6 years to 10 years.[212]

[208] Kevin Corinth, "Toward a More Efficient Housing Safety Net." American Enterprise Institute, April 2017. https://www.aei.org/wp-content/uploads/2017/04/Toward-a-More-Efficient-Housing-Safety-Net.pdf, 6.
[209] Husock, 53.
[210] Hays, 160.
[211] Corinth, 5.
[212] Husock, 52-53.

Mortgage Interest Tax Deduction Findings

The mortgage interest tax deduction allows homeowners who itemize their taxes to reduce their tax liability by deducting the interest paid on their mortgage payments. The MID has been a part of the U.S. tax code since the Revenue Act of 1913. However, it became increasingly coveted by the National Association of Realtors (NAR) in the 1980s when the NAR began lobbying politicians with lines such as: "Don't let Congress eliminate your mortgage interest deduction. Keep the American Dream alive." Although over ⅔ of Americans did not benefit from the tax deduction at the time, the MID gained political traction. In 1984, President Reagan directed his Treasury Department to "preserve that part of the American dream which the home mortgage interest deduction symbolizes." [213] In the decades since, the MID's stance in the tax code has become increasingly unassailable, championed by the right and conspicuously overlooked by the left. It is considered the equivalent of "electrified apple pie" in Americana parlance, yet continues to benefit only the top tier of American society.[214]

After the exemption on contributions to pension funds, the mortgage interest tax deduction is the second largest federal government expenditure on behalf of individuals.[215]
At present, the U.S. Treasury Department estimates that the MID will reduce federal revenue by $597.6 billion from 2019-2028 or approximately $60 billion each year.[216] However, most middle

[213] Dennis Ventry, "The Accidental Deduction: A History and Critique of the Tax Subsidy for Mortgage Interest" November 2009. https://scholarship.law.duke.edu/lcp/vol73/iss1/9/, 101.

[214] "Home Mortgage Deduction Under Attack By Presidential Panel." Mortgage News Daily, October 24, 2005. http://www.mortgagenewsdaily.com/10242005_Home_Mortgage_Interest_Deduction.asp.

[215] J. Michael Collins, "Federal Policies Promoting Affordable Home Ownership." In *Chasing the American Dream*, edited by William Rohe and Harry Watson. Ithaca, NY: Cornell University Press, 2007, 78.

[216] Scott Eastman and Anna Tyger, "The Mortgage Interest Tax Deduction." Tax Foundation, October 2019. https://files.taxfoundation.org/20191011104310/The-Home-Mortgage-Interest-Deduction.pdf, 4.

and low-income earners do not benefit from the MID because they do not itemize their taxes, opting for the standard deduction instead.[217]

Even before the Tax Cut and Jobs Act of 2017, which reduced the allowable loan principal amount from $1 million to $750,000, only 21 percent of households claimed the mortgage interest tax deduction.[218] Of the 21 percent of households claiming the deduction in 2018, less than 4% of taxpayers earned $50,000 or less. And of that 4% of lower income earners, they received only 1% of the deduction's overall benefits. This means people who earn more than $200,000 receive the greatest advantage from the MID, accounting for up to 34% of the claims and obtaining 60% of the MID's benefits.[219]

Effectively, the MID serves to lower the interest rate paid by homeowners. For instance, "a taxpayer in the 26% bracket who is paying a 5% percent nominal interest rate experiences an actual interest rate of 3.7 percent" and the homeowners disproportionately benefitting are higher-income earners in the higher income tax brackets.[220] The MID is by its very construction designed to benefit wealthy taxpayers over lower-income taxpayers and the missed revenue streams annually present a substantial missed opportunity for the federal government.

Black-White Homeownership Gap Findings

There are significant racial disparities and inequities to consider when assessing the rates and risks of homeownership in the United States. In 2019, the black-white homeownership gap

[217] William Gale, Jonathan Gruber, and Seth Stephens-Davidowitz, "Encouraging Homeownership Through the Tax Code." Brookings Institution, June 18, 2007. https://www.brookings.edu/wp-content/uploads/2016/07/20070618.pdf, 1171.

[218] William Gale, Hilary Gelfond, Aaron Krupkin, Mark J Mazur, and Eric Toder. "Effects of the Tax Cuts and Jobs Act: A Preliminary Analysis." Tax and Policy Center Urban Institute and Brookings Institution, June 13, 2018. https://www.brookings.edu/wp-content/uploads/2018/06/ES_20180608_tcja_summary_paper_final.pdf, 21.

[219] Eastman and Tyger, 1.

[220] Hays, 55.

was at its highest level in over 50 years; a difference of over 30 percentage points. And in 2017, black homeownership was at its lowest level in the past half century, at 41.8%; the lowest of all racial and ethnic groups.[221] On top of the fact that black households experience the lowest rates of homeownership, they also experience the greatest risks entering the housing market.

In fact, controlling for income, foreclosure rates increase in communities where there are higher populations of African-Americans.[222] And black and Hispanic applicants are more likely than white applicants to be denied home loan applications. In 2015, the rate of black applicant denials was nearly three times the rate of white denials, amounting to a rejection rate of 27.4% for black applicants and 11% for white applicants.[223]

Minority and low-income borrowers represent the demographic groups least likely to weather financial downturns as well.[224] During the 2008 financial crisis, black and Latino homeowners were nearly twice as likely to foreclose as white homeowners; 8% compared to 4.5%.[225] And in the years since the Great Recession, black homeowners have been unable to make up the ground lost when compared to white homeowners; totaling a loss of 770,000 black homeowners from 2001.[226] Further research finds that between 2004-2016, both black and white homeowner-

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[221] Jung Hyun Choi, Alanna McCargo, Michael Neal, Laurie Goodman, and Caitlin Young, "Explaining the Black-White Homeownership Gap A Closer Look at Disparities across Local Markets." Urban Institute, November 2019. https://www.urban.org/sites/default/files/publication/101160/explaining_the_black-white_homeownership_gap_1.pdf, 11.

[222] Rebecca M. Blank, Michael S. Barr, Raphael Bostic, and Kwan Ok Lee, "Homeownership: America's Dream?" In *Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Households*. New York: Russell Sage Foundation, 2009, 28.

[223] Kristen Bialik, and Drew Desilver. "Blacks, Hispanics Face Mortgage Challenges." Pew Research Center, January 10, 2017. https://www.pewresearch.org/fact-tank/2017/01/10/blacks-and-hispanics-face-extra-challenges-in-getting-home-loans/, 1.

[224] Goodman and Mayer, 32.

[225] Debbie Bocian, Wei Li, and Keith Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis." Center for Responsible Lending, June 10, 2010. https://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf, 3.

[226] Alanna McCargo, Jung Hyun Choi, and Edward Golding, "Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap." Urban Institute, May 2019. https://www.urban.org/research/publication/building-black-homeownership-bridges, 1.

ship rates declined. But the rate of decline for white homeowners was 5%, compared to 16% for black homeowners.[227] These figures highlight the racial gaps in homeownership and the lingering effects of the most recent economic downturn. The declining rates of black homeownership are especially troubling given the link between homeownership and wealth.

According to a 2018 Urban Institute study which examined the impact of parents' homeownership on children's homeownership between 1995-2015, there are significant advantages in having a home owning parent for children's prospects of homeownership and wealth accumulation. The report found that having a home owning parent increased a child's likelihood of becoming a homeowner by 7-8 percentage points. The study also highlighted the stark realities impacting black parents' homeownership: as 71.5% of white parents sustained homeownership, while only 31.4% of black parents were able to sustain their homeownership.[228] The black-white wealth gap represents a blight on the nation and an anchor holding back the financial stability of African-American families; as of 2016, the average white family's net worth totaled $171,000 while the average black family's net worth totaled $17,150.[229] Among other structural economic factors, the black-white homeownership gap continues to have a pernicious impact on the wealth of future generations of black Americans.

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227 Richard Brown and Anna Fry. "In a Recovering Market, Homeownership Rates Are Down Sharply for Blacks, Young Adults." Pew Research Center, December 15, 2016. https://www.pewsocialtrends.org/2016/12/15/in-a-recovering-market-homeownership-rates-are-down-sharply-for-blacks-young-adults/, 4.

228 Jung Hyun Choi, Jun Zhu, and Laurie Goodman, "Intergenerational Homeownership: The Impact of Parental Homeownership and Wealth on Young Adults' Tenure Choices." Urban Institute, October 2018. https://www.urban.org/sites/default/files/publication/99251/intergenerational_homeownership_0.pdf, 7.

229 Kriston McIntosh, Emily Moss, Ryan Nunn, and Jay Shambaugh, "Examining the Black-White Wealth Gap." Brookings, February 27, 2020. https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/, 1.

Discussion

Housing Choice Voucher Program Discussion

The question under review is how the federal government's present housing policy serves the goal of increasing low-income homeownership. The federal government's largest intervention for providing housing and largest expenditure is the Section 8 Housing Choice Voucher Program. This program's goal is not to bolster homeownership, but instead to assist "very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market".[230] The program's goals are then explicitly temporary and while beneficial for participants during their program tenure; overwhelmingly housing assistance leavers cannot boast long-term advantages.

Even the slim majority of HCV holders who exit the program for positive reasons reported struggles to make payments on high-interest or interest-only subprime loans.[231] This in and of itself should not come as a surprise given that the majority of subprime loans are made to low-income borrowers, a disproportionate number of which are African-American, indicating limitations in accessing fair credit opportunities or racist practices in the lending process.[232] What can be gleaned from this data is that even "positive leavers" of the HCV program face significant hardships in navigating post-housing assistance life. This reality is compounded by larger structural forces of discriminatory lending and redlining practices.

Upon exploration of HCV holders' experiences as tenants, the challenges facing program participants are wide-ranging. From difficulties of affording housing due to inflated rental costs

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[230] "Housing Choice Vouchers Fact Sheet." U.S. Department of Housing and Urban Development.
[231] Smith et al., 21.
[232] Allen Fishbein and Harold Bruce, "Subprime Market Growth and Predatory Lending." The Department of Housing and Urban Development. Accessed May 1, 2020. https://www.huduser.gov/Publications/pdf/brd/13Fishbein.pdf, 275.

in highly concentrated-subsidized housing areas, to struggles to afford housing in desirable, low-poverty neighborhoods due to grossly calculated voucher rent ceilings, to a lack of protection from source of income discrimination due to limited legal protections, HCV holders face a miasma of problems when seeking rental housing- let alone attempting to maximize their voucher by moving to neighborhoods of greater opportunity.

The inefficiencies within the project-based and tenant-based housing programs are cause for concern as well. These inefficiencies range from: overcharging on rental units, discouraging cohabitation, administrative costs, and increasing length of stays in both programs. The case overcharging in the city of Milwaukee alone represented an overpayment of $3.8 million dollars annually; this same sum of money could be used to house an additional 620 families. Milwaukee is just one of hundreds of municipalities across the country administering the HCV program, so the true impact of landlord overcharging is unknown but undoubtedly an enormous figure.

The issue of increasing length of stays for project and tenant-based housing participants also calls into question what the goals of housing assistance are and are these goals ambitious enough? The research shows that the length of stays for both programs are increasing and the rent prices in one's immediate rental housing market is correlated with length of stay. If a renter is confronted by higher rent prices in the rental market, they are more likely to remain in assisted housing.[233] Should the federal government continue to subsidize renting in tight rental markets when the research above indicates that the existence of the subsidy itself drives up rental prices? Is there another solution possible other than increasing the duration of stay, to the benefit of the 700,000 landlords who take part in the program, but to the detriment of families who are in no better position to acquire housing assets and therefore wealth, than before entering the program?

[233] Kirk McClure, "Length of Stay in Assisted Housing." U.S. Department of Housing and Urban Development, October 2017. https://www.huduser.gov/portal/sites/default/files/pdf/LengthofStay.pdf, 28.

Mortgage Interest Tax Deduction Discussion

The mortgage interest tax deduction is a frequent target of tax reformers because, as discussed above, its benefits are overwhelmingly weighted towards the upper class. Although lauded as a part and parcel of the American Dream and a justified tax-neutral deduction by conservatives, in fact, there is little evidence that the MID promotes first-time homeownership. For instance, many of America's peer countries do not have a mortgage interest tax deduction yet they have higher rates of overall homeownership: Britain, New Zealand, Canada, Australia, Singapore.[234] Notwithstanding other variables supporting homeownership in those countries, in the U.S., the MID does little to encourage homeownership because it is overwhelmingly utilized by the wealthy who are likely to purchase homes regardless of tax incentives.

In a perversion of the progressive nature of the tax code, the MID is utilized by the nation's highest-earners.[235] At the end of the day, the deduction is considered less of an incentive to become a homeowner and more of an encouragement for maximizing mortgage debt. That is, even in spite of the recent 2017 tax reforms capping maximum loans, the MID may still motivate individuals to take out larger mortgages or even purchase second homes.[236] The MID in effect incentivizes construction of expansive, single family homes and vacation homes and does not serve to attract or convert potential first-time homeowners. The wealthy taxpayers who itemize their taxes should not be subsidized by lower wage earners who do merit government aid.

[234] Steven C. Bourassa, Donald R. Haurin, Patric H. Hendershott, and Martin Hoesli. "Mortgage Interest Deductions and Homeownership: An International Survey." *Swiss Finance Institute* 12, no. 6 (2012). https://doi.org/10.2139/ssrn.2002865, 16.

[235] Edward Glaeser and Jesse Shapiro. "The Benefits of the Home Mortgage Interest Deduction." *National Bureau of Economic Research* 17 (January 2003). https://doi.org/10.3386/w9284, 40.

[236] Collins, 82.

In a discussion of how to increase low-income homeownership through reforming the MID, it is useful to put in perspective the untapped revenues generated by the MID. The approximate annual missed revenue of the MID is $60 billion a year; a figure which could pay for three years of the HCV program or triple the current number of families utilizing the program from 2.3 million to 6.9 million. However, the goal is not to expand current subsidized housing programs, but rather increase the rates of homeownership. This could be accomplished in a myriad of ways by redistributing MID revenue towards first-time homeownership programs.

Black-White Homeownership Gap Discussion

The particular vulnerabilities affecting the comparably lower rates of homeownership for people of color must be recognized and remedied. Since the first public housing projects were created, they were segregated and implicit and explicit racism in the real estate and lending industries have stymied homeownership rates for African-Americans.[237] The unbroken practice of mortgage redlining, disproportionately higher rates of foreclosure, and predatory lending practices impacting African-Americans compared to their white counterparts cannot be ignored and must be addressed with aggressive public policy.

To counter the impact of decades-long discrimination that African-Americans have experienced in the housing market, it is critical to tailor policies specifically to African-American communities. Since people of color are less likely to weather economic downturns and less likely to keep their homes for the loan's lifetime; generating less family wealth for future generations, new policies should be focused on mitigating the financial precarity facing first-time buyers.

[237] Rothstein, 192.

For instance, since black homeowners have historically put less money down when purchasing homes compared to other racial groups,[238] resulting in larger principal amounts and higher monthly mortgage payments, the federal government could provide more down payment assistance. Although previously, it was believed that foreclosure rates were higher for buyers who received such assistance, more recent research has shown that government grant recipients are at no greater risk of foreclosure than buyers who do not receive similar government aid.[239]

Beyond providing more targeted aid to potential first-time African-American homeowners and curb the recent trend of declining mortgage loan applicants,[240] the federal government should do more bolster enforcement of the Fair Housing Act to put an end to ongoing discrimination and segregation. The Obama Administration sought to enhance enforcement of the Fair Housing Act in 2015 under the "affirmative furthering" rule which required municipalities receiving federal aid to assess the state of housing segregation and create a remediation plan.[241] Since that time however, the Trump Administration, has reversed the "affirmative furthering" rule, severely limiting enforcement of the Fair Housing Act's anti-discrimination and integration goals.[242] It is imperative that Congress make the "affirmative furthering" rule into law so that enforcement is not subject to the whim of the executive branch.

African-American communities could also benefit from more robust housing and credit counseling. According to lenders, the reason most frequently cited for denying black home loan

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[238] Bialik and Desilver, 2.

[239] Michael A Stegman, Sarah F Riley, and Roberto G Quercia, "A Cautionary Tale of How the Presence and Type of Down Payment Assistance Affects the Performance of Affordable Mortgage Loans." Federal Reserve Bank of St. Louis, October 2019. https://www.stlouisfed.org/~/media/files/pdfs/hfs/assets/2019/stegman_cautionarytalepresenceandtypeofdownpayment_workingpaper_100719.pdf.

[240] Bialik and Desilver, 2.

[241] Rothstein, 200-201.

[242] Elaine Gross and Thomas Silverstein, "HUD Has Become an Obstacle to Fair Housing." The Hill, March 3, 2020. https://thehill.com/opinion/civil-rights/484526-hud-has-become-an-obstacle-to-fair-housing, 1.

applicants is credit history.[243] By offering housing and credit counseling, African-American potential homebuyers would have stronger applications and greater likelihood of receiving mortgage loans.[244] Counseling could also provide information on savings plans and downpayment assistance programs. Beyond these recommendations, black homeowners could benefit from many other initiatives within a revised federal policy; a policy more focused on permanent housing solutions and growing family wealth.

Conclusion

To increase low-income homeownership from the current rate of 51%, the federal government must rethink its approach to its largest subsidized housing program, the Section 8 Housing Choice Voucher and significantly reform the mortgage interest tax deduction. This will require prioritizing permanent housing solutions over temporary housing solutions and a much more proactive position of the federal government; meaning an end to the devolution of federal authority begun under the Nixon Administration. This will also require revising the MID which currently aids upper-income home purchases while delivering few benefits to middle and low income earners. Let us first consider potential reforms to the mortgage interest tax deduction.

The goal of reforming the mortgage interest tax deduction is to increase the rates of lower-income first-time homeowners. This can be achieved by limiting the mortgage loan maximum amount, currently $750,000, to a number more in line with the annual national median home

[243] Bialik and Desilver, 3.

[244] William M. Rohe, "Conclusion: Toward More Efficient and Equitable Homeownership Policies." In *Chasing the American Dream*, edited by William M Rohe and Harry L Watson. Ithaca, NY: Cornell University Press, 2007.

price, currently $327,000.[245] The MID could also be limited to a household's first home, excluding vacation homes. Both of these reforms would result in billions of dollars in new tax revenue each year which could be redistributed to promote low-income homeownership.

Another more nuanced proposal from economists Edward L. Glaeser and Joseph Gyourko caps the MID at $300,000. But the plan lifts the $300,000 cap on all counties except the 36 which have inelastic housing markets. Some of the 36 inelastic housing markets include: Montgomery County, Maryland, Orange County, California, and Nassau County, New York to name a few. From there, because these markets have both high housing prices and low levels of new construction, the proposal would repurpose all of the tax revenue generated towards production of new housing.[246] The authors do not stipulate that the new housing construction be directed towards affordable housing units, but to promote the goals of both racial and class integration, this would need to be stipulated for broader societal gains.

Moving on to reforms to the Housing Choice Voucher program, in order to shift the program's goals to homeownership instead of exclusively rental housing, the existing Section 8 Housing Choice Voucher Home Ownership (HCVHO) program needs to be substantially improved and expanded. The HCVHO program works similarly to the HCV program, but instead of providing rental assistance it makes monthly mortgage payments on behalf of program participants. Like the HCV program, the HCVHO program is administered by local housing authorities (LHA) and it is up to the LHA to choose to participate in the program. Currently, there are also

[245] "Median Sales Price of Houses Sold for the United States." Economic Research. Federal Reserve Bank of St. Louis, April 23, 2020. https://fred.stlouisfed.org/series/MSPUS.

[246] Glaeser, Edward L, and Joseph Gyourko. *Rethinking Federal Housing Policy*. Washington, D.C.: American Enterprise Institute, 2008, 143.

no down payment assistance funding provisions included in the HCVHO program, which may severely limit the program's accessibility for potential applicants.[247]

The current lack of down payment assistance funding and the fact that LHAs may choose to opt in or not highlights the federal ambivalence towards low-income homeownership and the lack of vital leadership. Before expanding the existing HCVHO program, it will be important to investigate best practices in the LHAs with high rates of participation, study the impediments for LHAs who choose not to participate, and understand the challenges in program administration.

Finally, to increase the rates of low-income homeownership it is necessary to increase the level of household savings. Putting more money down when purchasing a home reduces monthly mortgage payments, reduces the overall cost of the loan, and insulates buyers from future economic downturns. By expanding the existing Individual Development Account (IDA) program, which typically provides $2 in matching funds for every $1 of participant contributions, the federal government could support many more Americans in saving for a downpayment. In the period of 1998-2010, federal IDAs helped 6,000 households purchase a home.[248] Investing significantly and more widely marketing IDAs could vastly increase the rate of homeownership. Since many low-income homebuyers report struggling to fund necessary home repairs, in addition to

[247] "Homeownership Vouchers." Office of Housing Choice Vouchers / Homeownership. U.S. Department of Housing and Urban Development. Accessed May 1, 2020. https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/homeownership, 1.; Edgar O. Olsen, "Promoting Homeownership among Low-Income Households." The Urban Institute, 2007. https://www.urban.org/sites/default/files/publication/46626/411523-Promoting-Homeownership-among-Low-Income-Households.PDF, 1.

[248] Ida Rademacher, Kasey Weidrich, Signe-Mary McKernan, Caroline Ratliffe, and Megan Gallagher, "Weathering the Storm Have IDAs Helped Low-Income Homebuyers Avoid Foreclosure?" The Urban Institute, April 9, 2010. https://www.urban.org/research/publication/weathering-storm-have-idas-helped-low-income-homebuyers-avoid-foreclosure, 2.

creating IDAs for down payment purposes, it will be important to partition some of these funds for ongoing home maintenance and repairs.[249]

By reforming the Section 8 Housing Choice Voucher program and mortgage interest tax deduction, the federal government can support all Americans achieve homeownership. Owning a home should not come with 50/50 odds for low-income people because owning a home is the single greatest means for acquiring wealth in this country. We need to do better to increase the rate of homeownership and bolster the wealth and financial security of the most economically vulnerable. Policy shifts like those described above would lead to more intergenerational wealth for low-income families, particularly for people of color who disproportionately hold the lowest levels of assets and intergenerational wealth transfer. This is achievable through expanding existing policies like the Section 8 Housing Choice Voucher Home Ownership program, increasing housing and credit counseling, down payment assistance and Individual Development Account savings programs, and by substantially limiting and redistributing mortgage interest tax deduction revenue. In order to create a more equitable and prosperous country, our government programs and tax code must serve as levers of social mobility and help all Americans achieve the American Dream, no matter their income level.

[249] Rohe, 266.

Chapter 3: Building Wealth: The Promise of Individual Development Accounts

Introduction

Occupy Wall Street protesters' encampments in 2011 demanding an end to income inequality, boarded up buildings left to decay as vestiges of the 2009 foreclosure crisis, and more recently Black Lives Matter activists coalescing in both rural and city streets across the nation calling for racial justice -- these images illustrate the depth of the unrest and social and economic suffering felt by millions of Americans. Over the past decade, the issue of income inequality has come to the fore in the country's political consciousness and the same can be said increasingly for the related issue of racial justice. In fact, the majority of all Americans believe that there is too much income inequality in the United States and over two-thirds of Americans have expressed support for the Black Lives Matter movement.[250] People are asking for change because income, wealth, and racial inequality persist; class gaps have been widening since the 1970s and racial disparities have been endemic to the nation's founding, buoyed by government policies along the way.

With regard to income inequality, in 2018, the top twenty percent of Americans earned half of the nation's income in that year alone.[251] And economic trends are moving in the wrong direction; in 2019 U.S. income equality reached its greatest heights in five decades.[252] Racial

[250] Juliana Menasce Horowitz, Ruth Igielnik, and Rakesh Kochhar, "Americans' Views on U.S. Economic Inequality," Pew Research Center, May 30, 2020, https://www.pewsocialtrends.org/2020/01/09/most-americans-say-there-is-too-much-economic-inequality-in-the-u-s-but-fewer-than-half-call-it-a-top-priority/, 1.; Kim Parker, Monica Anderson, and Juliana Menasce Horowitz, "Majorities Across Racial, Ethnic Groups Express Support for the Black Lives Matter Movement" (Pew Research Center , June 18, 2020), https://www.pewsocialtrends.org/2020/06/12/amid-protests-majorities-across-racial-and-ethnic-groups-express-support-for-the-black-lives-matter-movement/, 1.

[251] Katherine Schaeffer, "6 Facts about Economic Inequality in the U.S.," Pew Research Center, February 7, 2020, https://www.pewresearch.org/fact-tank/2020/02/07/6-facts-about-economic-inequality-in-the-u-s, 1.

[252] Taylor Telford, "Income Inequality in America Is the Highest It's Been since Census Bureau Started Tracking It, Data Shows," The Washington Post (WP Company, September 26, 2019),

disparities reveal that the median black household earns less than two-thirds compared to the median white household annually. Put another way, in 2018 the median white household earned $84,600 compared to $51,600 for black households.[253] What is even more alarming than the racial income gap, however, is the widening racial <u>wealth</u> gap.

In 2016, the median white household's wealth totaled nearly $149,703 while the median middle-class black household had $13,024 in wealth. This means that the typical white family has assets over eleven times as large as their peer black household. And the wealth disparities far eclipse the income disparities in terms of percentage.[254] Much like the overall wealth gaps which have been widening for over a half century, the racial wealth gap has grown as well. For instance, in 1968 the median black household was worth $6,674 in wealth compared with $70,786 for the median white household, a figure roughly 10 times as large. These figures show that black households are in a worse financial position than they were fifty years ago. What this all means is that economic mobility is not guaranteed for all races equally and shared economic progress will not happen on its own.

To ensure economic security for all Americans, new targeted approaches to addressing both the income and wealth gaps must be taken. This requires a policy shift away from "treating" poverty in a symptomatic approach to "solving" poverty by remediating its source. Instead of relying on an array of housing and cash subsidies like the Section 8 Housing Choice Voucher or TANF payments which provide temporary relief, a long-term approach to alleviating poverty and promoting social mobility is necessary. This requires investing in asset-based welfare policies

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https://www.washingtonpost.com/business/2019/09/26/income-inequality-america-highest-its-been-since-census-started-tracking-it-data-show/, 1.

[253] Schaeffer, "6 Facts about Economic Inequality", 1.

[254] Andrew Van Dam and Heather Long, "The Black-White Economic Divide Is as Wide as It Was in 1968," The Washington Post (WP Company, June 4, 2020), https://www.washingtonpost.com/business/2020/06/04/economic-divide-black-households/.

which aim to put low-income people in positions to own assets which will build their household wealth over time. As discussed in the introductory chapter, social mobility in the U.S. has stalled, especially for people of color. It's time to adopt full scale approaches to lifting millions out of poverty and to do so in a way that empowers people to save and then spend on assets that match their needs and interests.

Building upon the existing infrastructure of Individual Development Accounts (IDAs) for incentivized low-income savings is the most expedient and efficient course of action. But this alone will not be enough; to redress income *and* wealth inequality, individuals need more money to save in the first place. Therefore, to enable individuals to save at higher rates, the federal minimum wage must also be increased to a higher living and savings standard.

Individual Development Account Background

Individual development accounts are matched savings accounts which allow participants to save and spend on long-term assets like homes, higher education, and small businesses. Participant eligibility, financial counseling services, allowable assets, and deposit matching level are determined by the program administrator (non-profits, state agencies, tribal organizations, banks or credit unions). Participant eligibility is capped at a certain income level, often 200 percent of the federal poverty level or \$25,520 for an individual or \$52,400 for a family of four.[255] There are also limits on household net worth, usually around \$10,000. Financial counseling is also pro-

[255] "Poverty Guidelines," HHS Poverty Guidelines for 2020 (U.S. Department of Health and Human Services, March 5, 2020), https://aspe.hhs.gov/poverty-guidelines.

vided and in most cases mandated for the majority of IDA participants. Finally, deposits are most commonly matched at a 1:1 or 1:2 rate.[256]

Since their creation in the early 1990s, IDAs were first adopted by individual states through state appropriated funding. Under President Bill Clinton's (D) Personal Responsibility and Work Opportunity Act (PRWORA) of 1996 (P.L. 104-193), IDAs received their first federal funding. The legislation allowed states to use appropriate Temporary Assistance to Needy Families (TANF) funds for IDAs. Subsequently in 1998, Congress passed the Assets for Independence (AFI) Act which provided matching funds to states for IDA demonstration projects. The AFI mandated that non-federal funds match all federal funds with a cap of $2,000 lifetime federal funds for an individual and $4,000 federal funds for a household.

More recently in 2016, all of the nearly 20 million of annual AFI funding was cut as part of a package of cuts to the U.S. Department of Health and Human Services.[257] Prior to being defunded, AFI provided the majority, or nearly two-thirds, of all IDA funding.[258] During its entire program existence, the AFI spent $267 million resulting in 978 grants and the creation of 113,975 IDAs. Participants withdrew their matched deposits for 1) higher education (22,703), home purchases (17,902), and small business capitalization (14,512).[259] As of 2019, in every state except Wyoming there is at least one IDA program administrator, however, only ten states

[256] "Individual Development Accounts: a Vehicle for Low-Income Asset Building and Homeownership: HUD USER," Office of Policy Development and Research (U.S. Department of Health and Human Services, 2012), https://www.huduser.gov/portal/periodicals/em/fall12/highlight2.html.

[257] "Prosperity Now Scorecard," Financial Assets & Income (Prosperity Now, 2019), https://scorecard.prosperitynow.org/data-by-issue#finance/policy/individual-development-accounts.

[258] David Newville and Joanna Ain, "Reauthorize and Funds for Independence" (Prosperity Now, September 2016), https://prosperitynow.org/files/PDFs/Policy_Brief_Reauthorize_Fund_Assets_for_Independence.pdf.

[259] "Assets for Independence Program Report to Congress" (U.S. Department of Health and Human Services), accessed June 7, 2020, https://www.acf.hhs.gov/sites/default/files/ocs/rpt_afi_rtc_fy2016.pdf, iii-iv, 20.

and the District of Columbia appropriate their own funding. All other funding for IDAs comes from states who choose to allocate TANF funds and private sector sources.[260]

The most recent TANF report to Congress was published in 2018 for fiscal year 2015. In total, states received $16.5 billion in TANF block grants and 20 states received an additional $685 million in Contingency Funds.[261] Of this total nearly $18 billion in funding, $1,544,074 million federal dollars were allocated towards IDA development and match grants. States contributed an additional $23,688, creating a combined total of $1,567,762 in total federal and state TANF spending towards welfare recipients' asset development.[262] The latest spending data available for FY 2018, shows an increase in both state and federal funding to $223,428 and $2,134,026 respectively, combining for a total of $2,357,454.[263] This increase in TANF funding from 2015 to 2018 may be attributable to the defunding of AFI-sponsored IDAs in 2016.

In spite of the recent federal cuts to IDA programming, the prevailing research on the effectiveness of IDA as a savings mechanism for asset development is positive. Yet, support for IDAs has begun to split along common political fault lines for aid programs which target the poor. Conservatives, once early supporters of IDAs, have cooled on the policy and shifted support in favor of more income-neutral and less generous universal savings plans while progressives have continued to support the programs, viewing them as one of several government interventions necessary to uplift the poor.

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260 "Find an IDA Program" (Prosperity Now, 2020), https://prosperitynow.org/map/idas.

261 "Temporary Assistance to Needy Families 12th Report to Congress Fiscal Years 2014 and 2015" (U.S. Department of Health and Human Services Administration for Children and Families Office of Family Assistance, 2018), https://www.acf.hhs.gov/sites/default/files/ofa/12th_annual_tanf_report_to_congress_final.pdf, 4.

262 "FY 2015 Federal TANF & State MOE Financial Data" (U.S. Department of Health & Human Services Administration for Children and Families, August 18, 2016), https://www.acf.hhs.gov/sites/default/files/ofa/tanf_financial_data_fy_2015.pdf, 7.

263 "FY 2018 Federal TANF & State MOE Financial Data" (U.S. Department of Health & Human Services Administration for Children and Families, August 7, 2019), https://www.acf.hhs.gov/sites/default/files/ofa/tanf_financial_data_fy_2018_8719.pdf, 6.

Roadmap

This paper seeks to understand the current and potential effectiveness of IDA programs, as part of a broader assets-based welfare strategy inclusive of policies that maintain income and increase wages. Specifically, this research is focused on how IDAs boost low-income homeownership and bridge the racial wealth gap by enabling more African-Americans to become homeowners. The literature review will examine the different ideological positions on IDAs which ultimately determine their political viability and livelihood. The findings section will review current research on the effectiveness and racial disparities within IDA program participation. Attention is also given to how increased minimum wage standards could enhance low-income workers' abilities to save for IDAs and work towards more financial stability. Finally, the discussion section offers recommendations for improving and expanding current IDA programs and argues for a higher federal minimum wage to improve living and saving standards.

Literature Review

Individual development accounts, first established in the 1990s, enjoyed early bipartisan support. Progressives supported IDAs because of their aim is to raise low-income populations into more permanent financial security. Unlike other government aid programs, IDAs garnered conservative enthusiasm because of the perceived promotion of a "pro-savings mentality" and the potential to reduce dependence on government aid.

The leader of the asset-based welfare policy movement is Social Policy Professor Michael Sherraden who created the concept of individual development accounts in the early 1990s. Sherraden contends that asset-based policies must supplement existing income-transfer policies which currently dominate the welfare landscape. Sherraden explains that the sole reliance on income-transfer policies has reaped few long term gains for the poor. While acknowledging that income-transfers alleviate the deleterious impact of poverty on households, they have done little insofar as reducing class or racial divisions, stimulating the economy, engendering public support, or most fundamentally reducing poverty rates.[264] Instead of replacing income-transfer policies, Sherraden highlights their complementary importance in ensuring short and long-term financial stability.[265]

Leading scholars in racial wealth inequality research, Thomas Shapiro and Melvin Oliver, also promote the needs for an assets-perspective. Shapiro and Oliver highlight the historical discrimination African-Americans have faced in purchasing assets be it through government condoned mortgage redlining or unequal access to the post-WWII G.I. Bill.[266] The authors support assets-based policies to remediate the racial wealth gap, like IDAs and also support savings accounts that begin early in the life course, like Children's Savings Accounts.[267] Shapiro highlights the synergistic relationship between individual and community assets in his supportive argument, "...the task is to structure and integrate policies that encourage home ownership and the kind of civic involvement that demands better schools and neighborhoods."[268]

Progressive think tanks like the Brookings Institution and Urban Institute have also published reports in support of IDAs as a vehicle for social mobility. A 2005 Brookings Institution

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[264] Michael Sherraden, *Assets and the Poor: A New American Welfare Policy* (London: Routledge, 2015), 1-2.

[265] Michael Sherraden, "Asset-Based Policies and Financial Services: Towards Fairness and Inclusion," in *Old Assumptions, New Realities: Economic Security for Working Families in the 21st Century*, ed. Robert D Plotnick et al. (New York, NY: Sage, 2011), 127.

[266] Melvin L.. Oliver and Thomas M.. Shapiro, *Black Wealth-White Wealth: a New Perspective on Racial Inequality* (New York, NY: Routledge, 2006).

[267] Oliver and Shapiro, *Black Wealth-White Wealth,* 244-246.

[268] Thomas M. Shapiro, "The Importance of Assets," in *Assets for the Poor: the Benefits of Spreading Asset Ownership*, ed. Thomas M. Shapiro and Edward N. Wolff (New York, NY: Russell Sage Foundation, 2005), 32.

policy brief recommends several methods for increasing IDAs including: greater state appropriations of TANF funds, existing refugee resettlement programs, and more options for taxpayers to automatically save upon receiving tax refunds.[269] A more recent 2019 Urban Institute analysis of AFI participation calls for continued program support. The authors also highlight that most federal asset-building expenditures benefit high-income families while government programs used by the poor include penalties for savings which creates built-in disincentives.[270]

Although asset-based welfare strategies have become more mainstream over the past few decades, not all progressives endorse the policy wholeheartedly. Some are concerned that such a change in priorities will prematurely divert government resources from income-maintenance programs and leave low-income people in an even more precarious position. Other more-left leaning progressives call for a more substantial overhaul of the economic system, arguing asset-based welfare is merely a band-aid on what is fundamentally an unfair construct.

John Karl Scholz and Ananth Seshadri argue against wealth-building policies in favor of policies that build more human capital and bolster existing social insurance policies. They explain that it is unwise to ask impoverished populations to reduce their consumption in order to save more because this is counter to these families' wellbeing. To that end, the authors criticize the efficiency of asset-based policies because they ask people to self-insure against future financial hardships, when it is more prudent to collectively insure against such hardships through state mechanisms.[271] Sanford Schram offers another pointed critique of asset-based welfare policy, holding that this shift in focus makes it harder to develop public policy which counters market

[269] Ray Boshara, "Individual Development Accounts: Policies to Build Savings and Assets for the Poor" (Brookings Institution, March 2005), https://www.brookings.edu/wp-content/uploads/2016/06/pb32.pdf, 7

[270] Caroline Ratcliffe et al., "From Savings to Ownership: Third-Year Impacts from the Assets for Independence Program Randomized Evaluation" (Washington, DC: Urban Institute, 2019), 45-46.

[271] John Karl Scholz and Ananth Seshadri, "The Assets and Liabilities Held by Low-Income Families," in *Insufficient Funds: Savings, Assets, Credit, and Banking among Low-Income Households*, ed. Michael S. Barr and Rebecca M. Blank (New York, NY: Russell Sage Foundation, 2009), 34-35.

principles where poverty begins in the first place. He holds that the philosophy of "saving the poor by making the poor save" results in low-income people getting mired in the "assets traps".[272] Schram does identify some hope for asset-based policy by integrating Amartya Sen's "capability framework" and embracing more of the broad-based reforms the United Kingdom has, including increased savings incentives and nationwide implementation.[273]

As mentioned above, initially conservatives and progressives supported individual development accounts and assets-based policy interventions with shared enthusiasm. The second major piece of federal legislation, the Asset for Independence Act (AFI) (P.L. 105-285), even collected more Republican co-sponsors than Democrats. Leading conservative think tanks like the Heritage Foundation and the American Enterprise Institute (AEI) promoted IDAs for reasons ranging from changing the political culture to improving individual's savings behaviors. Conservatives have supported IDA because of their ability to help participants' "focus on the future instead of on instant gratification and consumption" and "change the way a low-wage worker looks at his family, his community, and himself".[274]

However, not all conservatives were early adopters of IDA policies. The Vice President of the Cato Institute, David Boaz, criticized Republican Senator Dan Coats's (R-IN) sponsorship of the AFI, citing the legislation as another example of the federal government errantly inserting

[272] Sanford F. Schram, "Recommodified Discourse: The Limits of the Asset-Building Approach to Fighting Poverty," in *Welfare Discipline Discourse, Governance and Globalization* (Philadelphia: Temple University Press, 2008), 115-116.

[273] Sanford F. Schram, "Fighting Poverty," in *Welfare Discipline Discourse, Governance and Globalization* (Philadelphia: Temple University Press, 2008), 132-133.

[274] Joseph Loconte and David John, "H.R. 7, The Community Solutions Act" (The Heritage Foundation, July 9, 2001), https://www.heritage.org/civil-society/report/hr-7-the-community-solutions-act; Andrew Biggs, "Personal Accounts Build More Than Just Assets," Cato Institute, July 8, 2002, https://www.cato.org/publications/commentary/personal-accounts-build-more-just-assets.

itself into people's lives while spending taxpayer money.[275] And since the early years of bipartisan support for IDAs, conservatives have distanced themselves from the program, as evidenced by the complete defunding of the AFI under the Republican-controlled Congress in 2016. Over the past decade, conservatives have turned in favor of more income-neutral and less restrictive Universal Savings Accounts (USAs).

Universal savings accounts have not been enacted into law yet, but there is a push underway for USAs to become a centerpiece of President Donald Trump's (R) "middle-class tax cut 2.0". They differ from IDAs in three major ways: 1) there is no matching feature for deposits, 2) there are no minimum income requirements for participants, and 3) there are no restrictions on what funds can be used for upon withdrawal. Conservatives contend that USAs can reduce wealth inequality, provide millions of Americans with financial security and in turn reduce dependence on government assistance. Similar to their prior endorsement of IDAs, USAs are attractive because, "the entitlement mentality would be replaced with a savings-and-wealth mentality."[276] Without the matching feature to incentive savings, USAs would also be significantly less expensive. In addition, by making USAs available to all people irrespective of income, conservatives are able to avoid appearances of providing government handouts to only certain populations. Over the thirty or so years since the IDAs were established, ideological divisions have become more entrenched and bipartisan support for IDAs has largely disappeared.

[275] David Boaz, "Expansive Solutions," Cato Institute, September 27, 1995, https://www.cato.org/publications/commentary/expansive-solutions.

[276] Adam Michel, "A Road Map for Universal Savings Accounts in America," The Heritage Foundation, February 25, 2020, https://www.heritage.org/economic-and-property-rights/report/road-map-universal-savings-accounts-america, 5.

Gaps in the Literature

The ideological positions and concerns described above are useful starting points for this analysis of asset-based welfare policy. What is missing from the literature is how the leading research on IDAs, coupled with research on minimum wage increases, can inform a more inclusive asset-based welfare strategy and improve low-income social mobility and racial parity. Less attention will be paid to the leading conservative savings policy of universal savings accounts because they have yet to be enacted. However, the United Kingdom's savings plan, Individual Savings Accounts, will be evaluated as a potential model for expanded IDA programming. The aim of this paper is thus to find the potential in each of the different ideological positions and put forward a revised approach to assets-based welfare policy capable of remedying the stagnant wealth distributions and the black-white wealth gap.

Findings

Individual Development Account Findings

This section offers a synthesis of leading research on individual development accounts with particular attention to their capacity to reduce the racial wealth gap and increase low-income homeownership. The first major analysis of IDAs comes from a 1998-2002 randomized study involving 1,103 participants living at 150 percent below the federal poverty rate in Tulsa, Oklahoma, known as the American Dream Demonstration (ADD). Participants were divided into either the control group which did not have an IDA or the treatment group who received matching deposits at a 2:1 rate for home purchases. Initial analysis from 2004 found that after three years of program participation, the treatment group had a homeownership rate which was 14 percent higher than the control group.[277] As a subgroup, African-Americans also experienced statistically significant increases in homeownership rates and overall net worth.[278]

However, in a follow up study of participants from 2009, researchers observed that the rate of homeownership for the control group caught up to that of the treatment group, wiping out the previous finding of increased homeownership rates for IDA participants. The Tulsa IDA also had no significant impact on the length of homeownership for the treatment group.[279] The researchers offer several caveats for the diminished long-term effect of the Tulsa IDA including: 1) the existence of a competing local down payment assistance program which required no matching funds and 2) the Tulsa IDA was one of the first programs nationwide and differs from contemporary programs in terms of match rates, maximum allowable matching funds, and program duration (three years compared to the more typical five year length).[280] The authors also highlight that the program did not extend across the lifespan as Michael Sherraden advocated early on and they encourage further research on the Tulsa program's impacts on subgroups.[281]

Drawing on data from the same American Dream Demonstration study, Grinstein-Weiss et al. analyzed the effect of race on saving for homeownership. Their findings show that compared to white IDA participants, black participants saved smaller amounts and less frequently. By the end of the program, black participants' deposits accumulated $860 less in savings (with the 2:1 match included) and deposited 5 of 12 months compared to whites who deposited 6 of 12

[277] Gregory Mills et al., "Evaluation of the American Dream Demonstration: Final Evaluation Report" (The Ford Foundation and the Charles Stewart Mott Foundation, August 29, 2004), https://openscholarship.wustl.edu/csd_research/206/, 37.

[278] Mills et al., "Evaluation of the American Dream Demonstration," 46, 49.

[279] Michal Grinstein-Weiss et al., "Long-Term Impacts of Individual Development Accounts on Homeownership among Baseline Renters: Follow-Up Evidence from a Randomized Experiment," *American Economic Journal: Economic Policy* 5, no. 1 (2013): https://doi.org/10.1257/pol.5.1.122, 124.

[280] Michal Grinstein-Weiss et al., "Long-Term Impacts of Individual Development Accounts on Homeownership," 139.

[281] Michal Grinstein-Weiss et al., "Long-Term Impacts of Individual Development Accounts on Homeownership," 141.

months.[282] The following variables were cited as reasons for the majority of the black-white savings gap, all of which African-Americans experienced a lower incidence of: married status, car ownership, savings account holding, and monthly savings target. These findings compare with more recent federal data on disparities in usage of mainstream financial services which show that 14 percent of black adults are unbanked compared to 4 percent of white adults.[283] To bridge the black-white savings gap, Grinstein-Weiss et al. advised more childcare and transportation services for single parents, increasing matched rates and monthly savings targets, improving access to financial services and more relationship building between employers and IDA administrators to increase the rate of direct deposits.[284]

Further research from the American Dream Demonstration, reveals a positive relationship between IDA participation and the prevention of foreclosure. The 2011 study compared IDA homeowners from 1999-2007 with a comparison sample of low-income homeowners. Of the 803 IDA homebuyers, 25 had entered foreclosure by April of 2009 at a rate of 3.1 percent. In comparison to control groups, the IDA foreclosure rate was between one-third to one-half less representing a statistically significant decrease in risk.[285] In addition, the report found that IDA homeowners were more likely to obtain loans with better terms including more government-insured mortgages as compared to conventional mortgages. For instance, 40 percent of IDA participants received government backed loans compared to 15 percent of homeowners in the control

[282] Michal Grinstein-Weiss et al., "Using Individual Development Accounts to Save for a Home: Are There Differences by Race?," *Social Service Review* 81, no. 4 (2007): https://doi.org/10.1086/524288, 669.

[283] Alex Durante and Lisa Chen, "Report on the Economic Well-Being of U.S. Households in 2018" (Consumer and Community Research Section of the Federal Reserve Board's Division of Consumer and Community Affairs, January 2020), https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf, 25.

[284] Michal Grinstein-Weiss et al., "Using Individual Development Accounts to Save," 676-678.

[285] Signe-Mary Mckernan et al., "Weathering the Storm: How Have IDA Homebuyers Fared in the Foreclosure Crisis?," *Housing Policy Debate* 21, no. 4 (2011): https://doi.org/10.1080/10511482.2011.600698, 612.

group.[286] The authors suggest IDA participants' acquisition of better loan terms and avoidance of foreclosure is consistent with their hypothesis that IDA program design yields better preparation for and decision-making within the housing market. They conclude that further research is necessary to mete out how the different factors of program design (matched savings, homebuyer and financial education) influence participants' outcomes.[287]

Since the American Dream Demonstration study, research has been undertaken at sites funded by the Assets for Independence Act (AFI) of 1998. One such study was undertaken at an IDA site in the Midwest which ran from 1999 to 2007. The treatment group consisted of 164 past program participants, divided further between program graduates and dropouts. The control group consisted of 136 respondents from the same income tract (at or below 200 percent of the federal poverty level).[288] Researchers found that program graduates reported higher levels of savings than both program dropouts and the general population, noting that IDA programs may influence participants' savings attitudes and behaviors.[289] Other important findings from the study noted: 1) the positive impact of opening and maintaining a savings account on future savings, 2) the participant's previous psychological disposition with respect to self-reported ability to deal with financial strain and to envision the future, and 3) the presence of children in a household as a motivating savings factor.[290]

Another study from 2019 analyzed IDA outcomes from two AFI funded sites in Albuquerque and Los Angeles. The two locations' IDA program designs both included maximum matching grants up to $1,000, however, the Albuquerque site offered a 4:1 match compared to

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[286] Signe-Mary Mckernan et al., "Weathering the Storm," 611.

[287] Signe-Mary Mckernan et al., "Weathering the Storm," 614.

[288] Cäzilia Loibl et al., "More Than a Penny Saved: Long-Term Changes in Behavior Among Savings Program Participants," *Journal of Consumer Affairs* 44, no. 1 (2010): https://doi.org/10.1111/j.1745-6606.2010.01159.x, 107.

[289] Cäzilia Loibl et al., "More Than a Penny Saved," 117.

[290] Cäzilia Loibl et al., "More Than a Penny Saved," 119-120.

$2.5:1 at the Los Angeles site. In addition, due to challenges obtaining mandated federal matching funds, the Los Angeles site was unable to match deposits halfway through the third year of the program.[291] The study found that IDA participants as a whole did not show statistically significant increases in homeownership rates. However, an analysis of renters as a subgroup found that IDA participation yielded an increase of 4.7 percentage points over the control group. A review of the two locations separately shows that renters at the Albuquerque site increased their homeownership by 63 percent.[292] In addition to these findings, the report concluded that IDA participants experienced increased financial well-being, reduced material hardship, and improved access to mainstream banking services.[293]

Although the favored conservative policy of universal savings accounts has yet to be enacted in the U.S., the United Kingdom has offered a similar savings plan to its residents since 1999 and this may serve as a useful example to learn from. In brief, the U.K. offers three main types of savings plans called: Individual Savings Accounts (ISAs). All ISA contributions can be used for any purpose and no income tax is paid on savings or capital gains tax on ISA investments. The most popular Adult ISA is available to anyone over age 18, regardless of income, with annual contribution maximums of £20,000, or $24,678.[294] As of 2017, there were over 21.2 million Adult ISA subscribers, meaning nearly 40 percent of eligible U.K. residents hold an Adult ISA. Additionally, the median income of participants fell between £10,000-£19,999 or $12,362 - $24,722. The average ISA savings amount for the median subscriber was £24,035 or $29,711. The size of ISA holdings increased with income and participation in ISAs is also asso-

[291] Caroline Ratcliffe et al., "From Savings to Ownership," 11-12.
[292] Caroline Ratcliffe et al., "From Savings to Ownership," 29.
[293] Caroline Ratcliffe et al., "From Savings to Ownership," 43.
[294] "Individual Savings Account (ISA) Statistics" (National Statistics - HM Revenue and Customs, April 30, 2019), https://www.gov.uk/government/statistics/individual-savings-account-statistics., 6-8.

ciated with advancement in age. Although the lowest number of ISA accounts is found in the youngest age category (under 25), 83 percent of this group were considered active participants.[295] The popular U.K. ISA savings model may provide insights into creating universal savings accounts or reforming existing individual development accounts.

Federal Minimum Wage Findings

In addition to studying how IDAs may increase rates of low-income and African-American homeownership and later wealth accumulation and social mobility, it is important to consider how raising the federal minimum wage might work in conjunction to meet these ends. Currently, the federal minimum wage stands at $7.25 an hour. It has not changed since 2009 and it has never been indexed to inflation. This means that by 2018, the $7.25 wage standard is worth 14.9 percent less than it was in 2009 due to positive inflation, leaving low-income workers with less purchasing power. In fact, the minimum wage peaked in terms of purchasing power in 1968. If the same standard were employed today, the federal minimum wage would be worth $10.18 in 2018 dollars, or 28.6 percent more than its current rate .[296] Additionally, there are seven states where there is no minimum wage law or with standards lower than the federal level. In these states, predominantly located in the south, the federal minimum wage applies.[297] In total, over

[295] "Individual Savings Account (ISA) Statistics", 14, 18.

[296] David Cooper, "Raising the Federal Minimum Wage to $15 by 2024 Would Lift Pay for Nearly 40 Million Workers," Economic Policy Institute, February 9, 2019, https://www.epi.org/publication/raising-the-federal-minimum-wage-to-15-by-2024-would-lift-pay-for-nearly-40-million-workers/, 1.

[297] "Minimum Wage Tracker," Economic Policy Institute, May 26, 2020, https://www.epi.org/minimum-wage-tracker/, 1.

2.5 million people earn the federal minimum wage and contrary to common misconception, less than half of these workers fall between the ages of 16-24.[298]

The majority of American workers, or around 60 percent, earn more per hour than the federal minimum. As of May 2020, twenty-nine states have adopted higher wage standards than the federal minimum and 46 localities have adopted a higher standard than their state minimum. In 18 of these states and the District of Columbia, the minimum wage is adjusted for inflation and mandates to index the minimum wage have been enacted in six additional states.[299] Though the majority of Americans earn above the minimum wage, another 20.6 million people are considered "near minimum wage" workers. This means that they earn above the minimum standard but less than $10.10 an hour and would benefit from an across the board increase.[300] Raising the minimum wage would most significantly impact people of color as Latinos and African-Americans are disproportionately employed in minimum wage or low- wage sectors.

As described above, 21 states maintain the federal minimum wage. These states also have some of the highest African-American populations in the country; some of which are: Alabama, Georgia, Louisiana, Mississippi, South Carolina, and Tennessee. Raising the federal minimum wage would therefore have an outsized impact on the African-Americans population.[301] Beyond increasing the federal minimum wage and indexing it to inflation, over the past decade, more research has been undertaken to understand the effects of the $15 "living wage".

A 2015 report from the National Law Employment Project (NELP) found that although African Americans make up nearly 12 percent of the total workforce, they account for 15 percent

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[298] Drew DeSilver, "5 Facts about the Minimum Wage," Pew Research Center (Pew Research Center, January 4, 2017), https://www.pewresearch.org/fact-tank/2017/01/04/5-facts-about-the-minimum-wage/, 1.

[299] "Minimum Wage Tracker," 1; "The Effects on Employment and Family Income", 5.

[300] Drew DeSilver, "5 Facts about the Minimum Wage," 1.

[301] Laura Huizar and Tsedeye Gebreselassie, "What a $15 Minimum Wage Means for Women and Workers of Color" (National Law Employment Project, December 6, 2016), https://www.nelp.org/wp-content/uploads/Policy-Brief-15-Minimum-Wage-Women-Workers-of-Color.pdf, 9.

of the sub-$15 wage workforce.[302] By adopting a new federal standard of $15, over half of the black workforce would experience an increase in wages.[303] According to 2016 U.S. Census projections, several industries which disproportionately employ women and people of color at below $15 an hour are also projected to experience some of the highest job growth over the next decade. Two of these jobs are personal care workers and home health aides; black women are disproportionately represented among home health aides and Latino and African-American women comprise equal shares of personal care aides.[304] Projections for the 2018-2028 period show that these fields are the 1st and 4th largest growing occupations in the U.S.[305] They are also the two-lowest paid jobs on this list, with median salaries in 2018 of $24,200 per year for home health aids and $24,020 for personal care aides.[306] Both of these median salaries fall below the federal poverty threshold of $25,100 for a family of four.[307]

Moving on to how increasing the minimum wage might impact workers both positively and negatively, a Congressional Budget Office (CBO) report from July 2019 analyzed the potential impacts of three different wage increases: $10, $12, and $15. The report concluded that a gradually implemented $15 minimum wage could boost the earnings of 17 million workers. Families living under or 1-3 times above the poverty line would experience boosts in household income up to 5.3 percent, with the poorest families experiencing the greatest increases. And fam-

302 Huizar and Gebreselassie, "What a $15 Minimum Wage Means," 6.

303 Irene Tung, Yannet Lathrop, and Paul Sonn, "The Growing Movement for $15" (National Law Employment Project, November 2015), https://www.nelp.org/wp-content/uploads/Growing-Movement-for-15-Dollars.pdf, 9.

304 Elyse Shaw et al., "Undervalued and Underpaid in America: Women in Low-Wage, Female-Dominated Jobs" (Institute for Women's Policy Research, November 17, 2016), https://iwpr.org/publications/undervalued-and-underpaid-in-america-women-in-low-wage-female-dominated-jobs/, 30, 60.

305 "Fastest Growing Occupations" (U.S. Bureau of Labor Statistics, April 15, 2020), https://www.bls.gov/emp/tables/fastest-growing-occupations.htm.

306 "Fastest Growing Occupations: Occupational Outlook Handbook" (U.S. Bureau of Labor Statistics, September 4, 2019), https://www.bls.gov/ooh/fastest-growing.htm.

307 "Poverty Guidelines." HHS Poverty Guidelines for 2018. U.S. Department of Health and Human Services, January 18, 2018. https://aspe.hhs.gov/2018-poverty-guidelines.

ilies higher on the income distribution, living more than six times above the poverty line would experience an annual loss of $700 or .03 percent. In total, by 2025 when the new minimum would be finally phased in, 1.3 million fewer people would live below the poverty threshold.[308] It is also possible that 10 million workers who currently earn above $15 per hour would see increases in their wages as well as employers seek to reestablish a differential wage standard between their company and minimum wage sectors or if union bargaining agreements are standardized according to the federal minimum wage.[309] However, the analysis also estimated a median number of 1.3 million people could potentially lose their jobs in response to a $15 minimum wage mandate.[310]

The CBO cites numerous variables which account for uncertainty in their projected estimates. For instance, they explain that predicting future wage growth is not possible, meaning forecasting higher minimum wage standards' impacts on employment figures is inherently imperfect. If say wages increase more quickly than the CBO currently projects, then the employment impact of a higher minimum wage will likely decrease. And the same is true for the opposite scenario. These projections assume that employment rates are responsive to increases in the minimum wage to begin with, which is the second determining variable the CBO cites. Because current research on the minimum wages' impact on employment figures vary so widely, it is difficult to project the impact on employment with a high degree of certainty.[311]

As stated above, leading research on the minimum wage's potential impacts on employment offers conflicting conclusions. A 2019 study from the University of California at Berkeley

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[308] "The Effects on Employment and Family Income of Increasing the Federal Minimum Wage" (Congress of the United States Congressional Budget Office, July 8, 2019), https://www.cbo.gov/publication/55410, 12, 15.

[309] "The Effects on Employment and Family Income," 9.

[310] "The Effects on Employment and Family Income," 12.

[311] "The Effects on Employment and Family Income," 5.

concluded that increased minimum wages increased worker wages and reduced poverty rates among households and children. The researchers did not find that higher wage laws had any adverse effect on employment rates or hours.[312] In contrast to these findings, a study from the National Bureau of Economic Research on the minimum wage increases in Seattle, Washington found significant negative effects on employment hours. In total, they found that the city's wage ordinance caused low-wage workers' hours to decline by 9.4 percent during the three quarters when the wage was raised to $13, totaling a loss of 3.5 million hours per calendar year. The researchers surmised that the workers' net wage increase of 3.1 percent did not outweigh the lost income caused by reductions in workers' hours.[313]

Discussion

Individual Development Account Discussion

To increase the efficacy and expand the use of IDAs as a vehicle for asset development, particularly low-income homeownership, numerous steps must be taken at the federal level. These steps include program-level changes to IDA administration based on best practices and known challenges in the life-cycle of a homeowner to macro-level shifts in the federal minimum wage. Reforms of this variety and magnitude will create a more equitable savings playing field for lower-income individuals and minorities. To begin, we will discuss recommendations for improving IDAs then move onto a discussion of broader economic reforms.

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312 Anna Godøy and Michael Reich, "Minimum Wage Effects in Low-Wage Areas," January 2020, https://irle.berkeley.edu/minimum-wage-effects-in-low-wage-areas/, 21.

313 Ekaterina Jardim et al., "Minimum Wage Increases, Wages, and Low-Wage Employment: Evidence from Seattle" (National Bureau of Economic Research (NBER), May 2018), https://www.nber.org/papers/w23532, 32-33.

Based on the findings above, it is clear that investing in asset-building through IDAs provides one viable solution for increasing financial security and social mobility for low-income households. IDA program participation has been shown to increase participants' savings rates, homeownership, and avoidance of foreclosure. They have also been found to increase participants' access to mainstream banking services and self-reported financial well-being. Because homes represent the most valuable asset most Americans own, it is important to continue to provide IDAs as a savings instrument for people to use on their path to ownership. To render this policy goal a reality, IDA programs could be improved by several research-based recommendations which fall into three broad categories: 1) improving access to IDAs, 2) improving savings participation, 3) improving the home buying process, 4) improving homeownership retention. We will begin by discussing how to increase access to IDAs.

As described earlier, there are several states with limited access to IDAs or no access at all, putting millions of low-income households at a severe geographic disadvantage. IDAs could be significantly enhanced through revisions to the Community Reinvestment Act (CRA) which is currently under review and set for a major overhaul. The CRA's goal is to proactively compel banks to invest and provide services to low and moderate income communities and remediate discriminatory redlining practices which plagued communities of color for the greater part of the 20th century.[314] Current proposals from the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC) seek to give banks clarity on how to

[314] "Community Reinvestment Act," *Community Reinvestment Act* (Office of the Comptroller of the Currency, March 2014), https://www.occ.gov/publications-and-resources/publications/community-affairs/community-developments-fact-sheets/pub-fact-sheet-cra-reinvestment-act-mar-2014.pdf, 1.

achieve the CRA's goals through a metric-based system.[315] Banks can facilitate IDAs and comply with the CRA by providing: matching funds, technical assistance to program administrators, a home or business loan to an IDA participant, or financial education classes, among other forms of outreach.[316] Although the public comment window ended on March 9th, 2020 there is no set deadline for reform and so there is still an opportunity to lobby for greater prioritization of IDAs.

Another way to increase access to IDAs is to establish new mandates for TANF block grants. As described above, the current federal and state TANF investments in asset development falls below $2.5 million annually for the 1.2 million families receiving TANF assistance nationwide.[317] Investing less than $3 dollars per family in asset development will not likely yield significant outcomes towards the ultimate goal of self-sufficiency. To raise the rates of the now voluntary state participation in TANF facilitated IDAs, the federal government should make this a mandatory component for receiving block grants.

Instead of the current system of devolved responsibility, the federal government should provide more leadership in helping states to establish IDAs through contacts with nonprofits, state agencies, banks and credit unions. In addition, the federal government should take leadership on abolishing state asset limits for TANF recipients. As of 2014, more than half of states limited participants' assets for TANF cash funds from between $1,000-$2,500. However, research shows that reducing asset limits actually decreases administrative costs without driving up

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[315] Laurie Goodman, Brett Theodos, and Ellen Seidman, "The Community Reinvestment Act Faces Major Changes, but Regulators Are Not Aligned," Urban Institute, January 17, 2020, https://www.urban.org/urban-wire/community-reinvestment-act-faces-major-changes-regulators-are-not-aligned.

[316] "Individual Development Accounts and Banks: A Solid 'Match'." *Federal Deposit Insurance Corporation*. Accessed June 20, 2020. https://www.fdic.gov/bank/analytical/quarterly/2007-vol1-1/idas.pdf, 25; "Community Development Insights," February 2005. https://www.occ.treas.gov/news-issuances/news-releases/2005/nr-occ-2005-25a.pdf, 3.

[317] Gene Falk and Patrick A. Landers, "The Temporary Assistance for Needy Families (TANF) Block Grant: Responses to Frequently Asked Questions" (Congressional Research Service, December 30, 2019), https://fas.org/sgp/crs/misc/RL32760.pdf, 2.

caseloads.[318] Therefore, ending asset limitations will actually free up more TANF funding for more worthwhile endeavors. Moreover, reducing asset limits, specifically vehicle asset limits, provides families with more flexibility and capability to save, while actually reducing program participation rates.[319]

Moving on from increasing access to IDAs, it is equally important to discuss how to improve savings participation once new programs have been established. With concern to home purchases specifically, increased IDA savings amounts are critically important as they can lead to higher down payment amounts. Research shows that homeowners who place increased down payment amounts have a smaller likelihood of entering delinquency or foreclosure on their mortgage.[320] A few best practices emerge from the research above to inform enhanced savings practices.

To facilitate savings logistics, it is crucial to increase rates of direct deposits and establish more connections between IDA administrators and low-wage employers. For all low-income households, but especially within communities of color, it is necessary to increase access to mainstream financial services. And to improve savings participation among African-Americans, further recommendations include increasing match rates and monthly savings targets and providing more childcare and transportation or "wraparound" services. Ensuring there is a steady fund-

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[318] "Do Limits on Family Assets Affect Participation in, Costs of TANF?" (Pew Charitable Trusts, July 2016), https://www.pewtrusts.org/-/media/assets/2016/07/do_limits_on_family_assets_affect_participation_in_costs_of_tanf.pdf, 5, 10.

[319] Maureen Pirog, Edwin Gerrish, and Lindsey Bullinger, "TANF and SNAP Asset Limits and the Financial Behavior of Low-Income Households" (Pew Charitable Trust, September 2017), https://www.pewtrusts.org/-/media/assets/2017/09/tanf_and_snap_asset_limits_and_the_financial_behavior_of_low_income_households.pdf, 8, 12, 15.

[320] Ken Lam, Robert M Dunsky, and Austin Kelly, "Impacts of Down Payment Underwriting Standards on Loan Performance – Evidence from the GSEs and FHA Portfolios "(Office of Policy Analysis and Research Federal Housing Finance Agency , December 2013), https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/2013-12_WorkingPaper_13-3-508.pdf, 14, 23.

ing stream to actually match participants' contributions will be essential to the effectiveness and reputational integrity of the program as well. The most fundamental shift IDAs need to increase participants' savings rate, especially for people of color, is a realignment of the federal minimum wage to living wage standards, a point we will shortly return to in greater depth.

With improved savings rates, IDA participants will be in better financial standing to purchase assets like homes which can eventually provide financial security and promote social mobility. To ensure the homebuying process is as informative and efficacious as possible, it is important to maximize pre-purchase financial education. Under the prior AFI law, all IDA programs were required to support participants in obtaining the skills and information necessary for self-sufficiency. Most often, this programming was offered in the form of financial education and asset-specific training.[321] Under TANF IDA programs, states may create their own program requirements and financial education is not necessarily mandated.

Therefore, under future revisions to TANF, it is crucial to mandate financial education as a component for all IDA participants. The prevailing research to date supports up to 12 hours of financial education classes, after which point gains in the amount of money participants saved began to plateau.[322] Within the financial education classes geared towards homebuyers, it will be important to include guidance around selecting low-risk loans, the importance of maximizing down payment amounts and early home equity, and more awareness of potential foreclosure and depreciation risks.

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[321] "Assets for Independence Program Report to Congress" (U.S. Department of Health and Human Services), accessed June 7, 2020, https://www.acf.hhs.gov/sites/default/files/ocs/rpt_afi_rtc_fy2016.pdf, iii-iv, 16.

[322] Margaret Clancy, Michal Grinstein-Weiss , and Mark Schreiner , "Financial Education and Savings Outcomes in Individual Development Accounts" (Washington University in St. Louis, 2001), https://openscholarship.wustl.edu/cgi/viewcontent.cgi?article=1217&context=csd_research, 6-7.

Finally, after the goal of homeownership has been achieved, it is vital that IDA programs continue to play a role in ensuring newfound homeownership is maintained. For homeowners of color, this will be an especially significant intervention as data from the Great Recession shows black and hispanic homeowners were almost twice as likely to lose their homes as white homeowners.[323] While the federal regulatory reforms above will help in this effort, it is important to continue IDA program participation for a period of time after purchasing one's home and possibly over the life course, as IDA creator Michael Sherraden originally imagined.

Continuing to invest in an IDA after purchasing a home will allow homeowners to set aside funds which may be used for future unexpected expenses. After a job loss, the second most commonly cited reason for foreclosure is health expenses, and the third most frequently cited reason is poor budgeting skills.[324] In addition, most homeowners in pre-foreclosure have no available savings, credit, or extended family to turn to for additional resources.[325] Proactively saving could be the lifeline many low-income homeowners need to confront unexpected health expenses; although a larger discussion of U.S. health policy is merited here. Post-home purchase IDAs could also offset gaps in self-reported poor budgeting skills as the savings infrastructure would be in place and continued financial counseling could be administered.

To implement best practices on a broad scale will require a significant reinvestment into IDAs by the federal government. In 2016, complete defunding of the AFI effectively deprioritized the goal of asset-building for low-income households. This action by Congress further de-

[323] Debbie Bocian, Wei Li, and Keith Ernst, "Foreclosures by Race and Ethnicity: The Demographics of a Crisis." Center for Responsible Lending, June 10, 2010. https://www.responsiblelending.org/mortgage-lending/research-analysis/foreclosures-by-race-and-ethnicity.pdf, 2.

[324] "National Foreclosure Mitigation Counseling Program Final Congressional Report" (NeighborWorks America, July 13, 2018), https://www.neighborworks.org/Documents/HomeandFinance_Docs/Foreclosure_Docs/NFMC_Docs/Congressional-Repts/2018-NFMCCongressionalReport16.aspx, 28.

[325] "Foreclosure Statistics" (NeighborWorks America), accessed June 21, 2020, https://www.fdic.gov/about/comein/files/foreclosure_statistics.pdf, 2.

volved federal leadership for asset-development programs to states where under TANF block grants states received just over $2 million dollars in 2018 and contributed only over $200,000 more. Recommitting full funding under the AFI will enable states to revise and expand their IDA programs to meet the needs of their residents who seek a path towards self-sufficiency. Beyond TANF and redistributed AFI funding, a much larger source of funding exists and should be diverted towards IDAs and other asset building programs. This source of funding is the mortgage interest tax deduction and the nearly $60 billion in annual revenues which could be collected by eliminating the MID. The MID currently enjoys bipartisan support so collecting this missed tax revenue will require most likely Democratic Party leaders to take on this issue and confront possible resistance from upper-income beneficiaries.

It is important now to turn to a brief discussion of the Individual Savings Account program that the United Kingdom administers because it may serve as a model for IDA reform and expansion. Although ISAs bear stronger resemblance to the U.S. Republican Party's favored program of Universal Savings Accounts than IDAs, studying ISAs can help U.S. policymakers understand their high rates of low-income savings participation. As stated above, the largest income group in the U.K. which owns an ISA is low-income, earning between £10,000-£19,999 or $12,362 - $24,722 annually. In total, there were 6.5 million subscribers in this income-band for the 2016-2017 year. By comparison, in the nearly 20 years of the AFI, the largest federally funded IDA program, just over 100,000 IDA accounts were opened. This stark contrast leads one to ask: what is different about the ISA program implementation or what is different about the low-income U.K. saver that is enabling such comparatively high savings rates? It is worth noting that prior to participation in the Adult ISA program, U.K. children up to the age of 18 may contribute to "Junior ISAs" and studying any link between "Junior ISA" and "Adult ISA" participation would also be a useful line of inquiry. Finally, analyzing ISA participation by racial group and investigating any racial disparities that may or may not exist could provide clues as to how to mitigate the racial savings gap in the U.S. as well.

Federal Minimum Wage Discussion

In addition to investing in IDA programs, the federal government must also begin investing directly in people. An increased federal minimum wage will enable more low-income people to save on their own behalf through IDA program participation. With enhanced earnings, lower income households will be able to bolster their savings and increase their financial security in the short-term and invest in assets, like home purchases, in the long-term. In order to begin this direct investment, the federal minimum wage must be raised from $7.25 to a new living and savings standard. Whether this standard is adjusted based on regional living costs or raised uniformly to the increasingly publicly favored rate of $15, it should be indexed to inflation to ensure long-term relevance and impact.[326]

Federal action on the minimum wage will have an outsized positive impact on communities of color as people of color are much more likely to earn poverty-level wages. In the 21 states where the minimum wage still stands at $7.25 but especially in the southern states with the nation's greatest populations of African-Americans per capita, this new mandate will have an immediate impact. Women of color would benefit in particular from increasing the minimum wage. An increase would impact two of the four fastest growing occupations into next decade: home health aides and personal care workers. By boosting the current median hourly wage of $12 per

[326] Leslie Davis and Hannah Hartig, "Two-Thirds of Americans Favor Raising Federal Minimum Wage to $15 an Hour" (Pew Research Center , July 30, 2019), https://www.pewresearch.org/fact-tank/2019/07/30/two-thirds-of-americans-favor-raising-federal-minimum-wage-to-15-an-hour/.

hour to $15, half of the workers in these two healthcare occupations would experience an immediate wage increase. And as discussed above, it is also possible that workers earning more than $15 would yield a higher salary as employers seek to maintain a wage differential.

Calling for a higher federal minimum wage and uplifting the income of the low-wage workforce is part and parcel of an inclusive assets-based welfare strategy. Income maintenance and elevation as well as IDA formation are not mutually exclusive, but mutually beneficial. Income growth will enable greater savings towards IDAs and future asset purchases and IDAs will provide people with an incentivized savings structure to grow their wages into wealth. Increasing people's income is therefore critical to the success of an IDA program and by treating low-wage growth as integral to the assets-based welfare strategy, scholars and politicians on the far left who currently look upon IDAs with skepticism should theoretically become receptive to their promise of financial security.

There are of course many unknowns with such a significant raise of the federal minimum wage to the necessary living and saving standard. Because the leading research currently offers contradictory findings as to what potential outcomes are of increasing wages, it is impossible to say conclusively how overall employment rates and hours would be impacted. It is therefore useful to continue to study state level minimum wage increases more to understand best practices for implementation. Whatever long-term course of action is ultimately chosen, some immediate action must be taken by Congress to raise the minimum wage to make any meaningful progress towards eliminating the nation's widespread class and racial wealth disparities.

Conclusion

Where you put your money reflects your priorities. Currently, the federal budget allocates around $2 million annually through TANF towards helping low-income families save for future financial independence. If you include additional funding from the federal Family Self-Sufficiency Program, this number increases by $75 million per year.[327] Of the $4.4 trillion dollar total federal budget, an investment of just over $75 million for low-income household savings and wealth attainment barely registers. However, what is more concerning about federal priorities is the comparative investment made in upper-income earners' savings plans.

Tax expenditures in the form of deductions, exclusions, and preferences overwhelmingly subsidize higher-income earners savings plans. These tax expenditures total 1.4 trillion dollars a year and account for an enormous sum of missed revenue; this includes over $100 billion dollars a year in subsidies for retirement accounts, like 401ks and IRAs, which low-wage workers benefit from the least. In fact, most tax expenditures benefit higher-income earners. For instance, in 2018, the top fifth of earners garnered more than 58.8 percent of tax expenditures and within this group, the top 1 percent earners obtained 24.1 percent of total tax expenditures. By comparison, the bottom fifth of the income distribution enjoyed just 4.3percent of tax expenditures intended to incentivize savings.[328] These figures further illustrate the government's preferential treatment of policies which serve the rich while ignoring the needs of the poor. Policies which subsidize

[327] "Family Self-Sufficiency Program 2019 Summary Statement and Initiatives "(Public and Indian Housing U.S. Department of Housing and Urban Development , 2019), https://www.hud.gov/sites/dfiles/CFO/documents/12%20-%20FY19CJ%20-%20PIH%20-%20Family%20Self-Sufficiency.pdf, 1.

[328] "Policy Basics: Federal Tax Expenditures" (Center on Budget and Policy Priorities, November 18, 2019), https://www.cbpp.org/research/federal-tax/policy-basics-federal-tax-expenditures., 1-2.; Chuck Marr, Nathaniel Frantz, and Chye-Chinge Huang, "Retirement Tax Incentives Are Ripe for Reform," Center on Budget and Policy Priorities, December 13, 2013, https://www.cbpp.org/research/retirement-tax-incentives-are-ripe-for-reform, 1.

existing economic advantages do not incentivize new savings as advertised; instead, they reinforce privilege and make it harder for low-income earners to improve their financial standing.

To reverse course, lawmakers must radically shift their priorities to provide proportionate or greater resources to help low-income households increase their savings and wealth. Based on the findings and discussion above, an assets-based welfare policy inclusive of income maintenance policies offers one viable solution. An assets-based approach to reducing the existing class and racial wealth gaps requires massively increasing IDAs and matching funding. Expanded IDA programs should incorporate best practices and reforms which address the particular challenges people of color face in the home ownership process. Though IDAs may be used for several purposes, home ownership remains the most commonly held asset of Americans and is a direct vehicle for building equity and wealth. Therefore, IDAs should continue to be used to promote low-income and minority homeownership.

By advocating for an assets-based policy coupled with elevating the federal minimum wage, low-wage households will be able to do more than get by, living paycheck to paycheck. No one is served in an economy where nearly a third of Americans would have to borrow to cover a $400 unexpected expense and over one-in-ten people would not be able to cover such expense at all.[329] Beyond the myriad other negative impacts, this kind of economic fragility hinders savings abilities. By mandating a higher federal minimum wage, those earning below the current standard as well as those earning above it are likely to experience a positive net gain. For people of color especially, increasing the minimum wage will have immediate benefits due to the fact that black and Latino women make up a disproportionate percentage of the growing low-wage

[329] Durante and Chen, "Report on the Economic Well-Being of U.S. Households," 21.

workforce and black populations are most highly concentrated in states which currently employ the federal standard.

To rectify the income and wealth gaps which inhibit economic equality and mobility, radical savings and wage reforms must take place. As Sherraden writes, too often programs targeting the poor require “demonstration” projects to prove their worth and rarely result in lasting change. He points out the underlying class calculations behind lawmakers’ decisions, asking if Congress never asked for demonstration projects before subsidizing 401ks, why wait now to implement reforms that subsidize savings for the poor?[330] No doubt, class and racial discrimination undergird the federal policies which currently disadvantage the poor and black and brown members of society. It will take serious leadership in Congress and realignment of priorities towards the least wealthy and least powerful in society to make financial security and social mobility a reality for all Americans.

[330] Sherraden, “Asset-Based Policies and Financial Services,” 132.

Conclusion: Let America Be America Again: A Call to Action for the Federal Government

The free?

Who said the free? Not me?
Surely not me? The millions on relief today?
The millions shot down when we strike?
The millions who have nothing for our pay?[331]

"Let America Be America Again", poet Langston Hughes's critical assessment of the American Dream feels as timely in 2020 as when it was written in 1935 in the middle of the Great Depression. In the wake of the COVID 19 pandemic, unemployment rates near Depression Era levels but the economic fragility of the nation has been a long time coming and the economic divides in our country are as racially marked as they were during the Civil Rights era. The millions who have nothing for their pay who Hughes describes here are the millions of modern Americans who earn minimum wage and near minimum wage salaries with few benefits and appreciable assets to show for it. The egalitarian promise of equal opportunity remains therefore as elusive today as it did in 1935, as it did in 1865, as it did in 1776. Numerous factors contribute to the racialized and hierarchical nature of American society and the federal government's welfare and housing policies rank high among them. This thesis portfolio attempts to situate current ineffective policies within their proper historical context and presents recommendations to rectify past racial discrimination and reification of class privilege with the goal of creating a fairer economic system for all.

The country's welfare policies since the early days of mother's pensions have been plagued by tepid commitment, weak federal leadership, and racism. Devolution of federal au-

[331] Langston Hughes, "Let America Be America Again," Poets.org (Academy of American Poets), accessed July 4, 2020, https://poets.org/poem/let-america-be-america-again.

thority to states to administer President Roosevelt's Social Security Act of 1935 led to the creation of racist criteria for benefits or outright exclusion of black dominated occupations. President Johnson's War on Poverty was similarly undermined by southern Democrats' alienation and defection, alarmed by the War on Poverty's focus on urban renewal and subsequent race riots. In an attempt to localize employment strategy, Johnson resigned federal authority to the private sector promising tax deductions for job creation, to little effect and further disillusionment of the black community. With the southern Democrats defection to the Republican Party in full swing, President Reagan gained support and a ready audience for his assault on entitlement programs and not so veiled attacks on women of color through the characterization of "welfare queens". Running as a moderate Democrat or "New Democrat", President Clinton took up Reagan's rhetorical mantle and promised "to end welfare as we know it", again submitting federal leadership to the states and creating new obstacles for participation.

These four presidential case studies reveal a woefully inadequate federal response to the needs of Americans and a Democratic Party forced or willing to capitulate to the overt and latent racism which pervaded the party and its constituencies for the better part of the 20th century. Instead of pursuing an aggressive national jobs strategy when progressive voices within their cabinets beckoned, Roosevelt and Johnson turned to the states. Left to their own devices, state governments implemented discriminatory policies or offered menial jobs instead of real opportunity. Since Reagan's ascendency, the Democratic Party has failed to combat the Republican Party's denigration of welfare participants or make social mobility for the poor a political priority. Clinton's signature welfare legislation further cemented the Democrat's position, as reactionary instead of visionary, reluctant instead of proactive, ambivalent instead of resolute. To become visionary, proactive, and resolute the Democratic Party must convince their voters, their Republican colleagues and themselves that a federal jobs program is worth pursuing. As Roosevelt said in his "Second Bill of Rights" speech, a right to work and to earn an income should be a fundamental guarantee in the pursuit of happiness.[332]

Housing policy sits under the broad umbrella of welfare, as stable shelter is a foundational need for all people. The second chapter focuses on two areas of federal housing policy which have proven ineffective at supporting long-term goals for individuals and families: the mortgage interest tax deduction and the Section 8 Housing Choice Voucher. Although commonly perceived as an incentive to homebuyers, this perception has not borne out in reality. In fact, the MID overwhelmingly benefits upper-income households, subsidizing expansive single-family construction including second homes. In turn, the federal government misses out on $60 billion in annual revenue as the gap between black and white homeownership reaches its highest levels in over fifty years. As the MID has become an untouchable fixture in both parties' platforms, the HCV has similarly become an ingrained fixture in the nation's housing policy over the decades. Like the MID, the HCV program has proven ineffectual at transitioning people out of government subsidized housing and into long-term financial independence and stability. The program is presently corrupted by landlord overcharging, high administrative costs, and other inefficiencies. As the nation's largest housing program serving 2.1 million households, the HCV is well positioned to provide wide-scale government intervention on the path towards self-sufficiency and social mobility.

Both the MID and HCV require broad-based changes to turn them into programs which promote homeownership among low-income populations and it is this segment of the population that the government should be subsidizing homeownership for, not the upper-class. Low-income

[332] Cass R. Sunstein, *The Second Bill of Rights: FDR's Unfinished Revolution and Why We Need It More than Ever* (New York: Basic Books, 2006).

families have the most to gain from the wealth which accrues with each year of homeownership. Therefore, the MID should be eliminated or significantly reformed to target its benefits and revenues towards subsidizing transitions from renting to owning. The HCV should also be reformed to include more pathways to homeownership by expanding the existing Family Self-Sufficiency Program which has demonstrated success in reducing government aid use and increasing participants' household savings. As of 2014, the FSS program served 57,087 families meaning there is room for considerable expansion considering the total 3.5 million families aided by federal housing subsidies.[333] The existing Section 8 Homeownership Program should also be considered for expansion as this comparably smaller program has also demonstrated positive impacts on participants' abilities to transition to homeownership.[334]

In addition to promoting low-income homeownership and social mobility through reforms to the MID and HCV program, individual development accounts also offer a vehicle for savings and wealth-building. Research bears out that IDAs are an effective means of promoting low-income savings and homeownership while also reducing the likelihood of foreclosure. Through the combination of matching deposits and financial counseling, IDAs can provide participants with the necessary support and motivation to save for future assets. As part of a comprehensive approach to assets-based welfare, the second paper also researched the outcomes of increasing the federal minimum wage. While there is debate as to how increasing the minimum wage to a higher living standard of $10-15 would impact the overall economy, many leading

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[333] Hannah Emple, "Asset-Oriented Rental Assistance Next Generation Reforms for HUD's Family Self-Sufficiency Program" (New America Foundation, December 2013), https://static.newamerica.org/attachments/1656-asset-oriented-rental-assistance/Asset-Oriented_Rental_Assistance.pdf, 9-11; Lalith de Silva et al., "Evaluation of the Family Self-Sufficiency Program: Prospective Study" (U.S. Department of Housing and Urban Development Office of Policy Development and Research, February 2011), https://www.huduser.gov/portal/publications/FamilySelfSufficiency.pdf, 45.

[334] Jennifer Turnham et al., "Voucher Homeownership Program Assessment Volume I Cross-Site Analysis" (U .S. Department of Housing and Urban Development Office of Policy Development and Research, June 2003), https://www.huduser.gov/Publications/PDF/MSD_Book_VOL1.pdf, 6-8.

scholars and the CBO highlight that employment rates would not be adversely affected and if they are, the net gains for low-income workers would outweigh the costs. In terms of remediating the racial wealth gap, increasing the federal minimum wage would have a significant positive impact on people of color, specifically women of color.

By expanding participation in IDAs, coupled with raising the federal minimum wage, low-income households would be in a much stronger position to save for future asset acquisitions. In particular, savings for homeownership is advisable because in spite of the recent foreclosure crisis, housing continues to remain a wise investment for all Americans, including people of color. Homeownership adds to individuals' overall net worth year over year while providing financial security in the form of equity and appreciation. Because of the inherent risks of homeownership and the particular forms of discrimination experienced by buyers of color, it is vital for the federal government also enhance oversight and promote equitable investment within the lending industry. There is immediate opportunity for action through the ongoing revisions of the Community Reinvestment Act and through heightened enforcement of the Fair Housing Act under the "affirmative furthering" rule.

Turning now to a broader discussion of recommendations to achieve greater social mobility, it is important to flesh out more details as well as political realities. Beginning with the call for jobs guarantee, history suggests that full employment is an effective policy choice. Beginning with the New Deal to the Great Recession, when the federal government intervenes to create jobs, economic hardship is significantly reduced.[335] Considering that the federal reserve is already under a mandate to pursue full employment through the 1978 Full Employment and Bal-

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[335] Alan S Blinder and Mark Zandi, "The Financial Crisis: Lessons for the Next One" (Center on Budget and Policy Priorities, October 15, 2015), https://www.cbpp.org/sites/default/files/atoms/files/10-15-15pf.pdf, 1; "Economic Stimulus (Revisited)," IGM Forum (The University of Chicago Booth School of Business, July 29, 2015), http://www.igmchicago.org/surveys/economic-stimulus-revisited/, 1.

anced Growth Act, Congress should learn from these past interventions to create the necessary infrastructure for permanent full employment. One such proposal is the National Investment Employment Corps (NIEC) put forth by the Center on Budget and Policy Priorities. The NIEC would include a job guarantee with entry wages at a minimum hourly wage of $11.83 (2018 figures), indexed to inflation, including opportunities for advancement. Additional benefits include: retirement plans, paid family and sick leave, earned vacation time, and health insurance.[336] For black workers who consistently experience double the rate of unemployment as white workers, a national employment strategy would have an outsized positive impact.[337]

There is increasing political support for a federal jobs guarantee, led by Senator Cory Booker (D-NJ) and Senator Bernie Sanders (D-VT). Senator Booker's bill, the "Federal Jobs Guarantee Development Act of 2019", calls on the Secretary of Labor to establish pilot job guarantee programs and funding to entities with higher than 150% of the unemployment rate.[338] Similar legislation is being sponsored by Rep. Bonnie Watson Coleman (D-NJ) in the House of Representatives.[339] The demands for economic justice are rising as the pandemic lays bare anew the racial inequalities and unemployment disparities in the American workplace[340] As the economist Pavlina Tchernerva, points out: a right to a job would "serve as a preventative policy that inoculates against the vast economic, social and political costs of unemployment" such as that

[336] Mark Paul, William Darity Jr., and Darrick Hamilton, "The Federal Job Guarantee—A Policy to Achieve Permanent Full Employment" (Center on Budget and Policy Priorities, March 9, 2018), https://www.cbpp.org/sites/default/files/atoms/files/3-9-18fe.pdf, 4.

[337] Mark Paul, William Darity Jr., and Darrick Hamilton, "The Federal Job Guarantee," 2.

[338] U.S. Congress, Senate, Federal Jobs Guarantee Development Act of 2019, S 2457, 116th Cong., 1st sess., introduced in Senate September 10, 2019, https://www.congress.gov/116/bills/s2457/BILLS-116s2457is.pdf.

[339] U.S. Congress, House, Federal Jobs Guarantee Development Act of 2019, HR 4278, 116th Cong., 1st sess., introduced in House September 10, 2019, https://www.congress.gov/116/bills/hr4278/BILLS-116hr4278ih.pdf.

[340] Connor Maxwell and Danyelle Solomon, "The Economic Fallout of the Coronavirus for People of Color," Center for American Progress, May 8, 2020, https://www.americanprogress.org/issues/race/news/2020/04/14/483125/economic-fallout-coronavirus-people-color/.

the country is experiencing today.[341] A national jobs guarantee would also mitigate any potential fallout from losses in employment due to increases in the federal minimum wage.

While the majority of the American public supports raising the minimum wage, reducing income inequality, and a universal jobs program there remain real political obstacles.[342] With concern to a universal job guarantee, conservatives are apprehensive about the cost, performance of public jobs programs, and the ability of workers to transition to the private sector.[343] There is similar reluctance towards increasing the federal minimum wage among conservatives, who worry about potential job losses, diminished business investment, increased automation, and higher costs for consumers.[344] Finally, instead of pursuing a matching savings account policy through IDAs, conservatives favor the Universal Savings Account model which does not include a government match for deposits and allows participation across regardless of income.[345]

In general, the majority of Republican voters do not think it is the federal government's responsibility to reduce income inequality though four in ten do believe the economic divide is too large.[346] And though the majority of voters support the Black Lives Matter movement with

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[341] Pavlina R. Tcherneva , "The Job Guarantee: Design, Jobs, and Implementation "(Levy Economics Institute of Bard College , April 2018), http://www.levyinstitute.org/pubs/wp_902.pdf, 4.

[342] Zack Budryk, "Majority of Voters Support a Federal Jobs Guarantee Program," January 7, 2020, https://thehill.com/hilltv/468236-majority-of-voters-support-a-federal-jobs-guarantee-program.

[343] Max Gulker, "Opinion | The Dangerous Fantasy of a 'Jobs Guarantee'," The Wall Street Journal (Dow Jones & Company, November 14, 2018), https://www.wsj.com/articles/the-dangerous-fantasy-of-a-jobs-guarantee-1542239737.; Charles Hughes, "Getting Stuck Working for Uncle Sam," (National Review, May 16, 2018), https://www.nationalreview.com/2018/05/democrat-job-guarantee-proposal-costly-ineffective/.

[344] Brittany De Lea, "Republicans Slam Democrats' $15 Minimum Wage Bill: It Would 'Eviscerate' US Jobs," Fox Business, July 10, 2019, https://www.foxbusiness.com/economy/republicans-slam-democrats-minimum-wage-bill.; Kevin D. Williamson, "The Minimum-Wage Debate Is a Flight from Economic Reality," National Review, May 31, 2019, https://www.nationalreview.com/2018/12/minimum-wage-laws-price-of-labor-an-economic-reality/.

[345] Stephen Moore and Adam Michel, "Opinion | A Tax-Cut Idea for Trump," The Wall Street Journal (Dow Jones & Company, February 19, 2020), https://www.wsj.com/articles/a-tax-cut-idea-for-trump-11582071863?mod=opinion_lead_pos9.

[346] Juliana Menasce Horowitz, Ruth Igielnik, and Rakesh Kochhar, "Americans' Views on U.S. Economic Inequality," Pew Research Center's Social & Demographic Trends Project, May 30, 2020, https://www.pewsocialtrends.org/2020/01/09/most-americans-say-there-is-too-much-economic-inequality-in-the-u-s-but-fewer-than-half-call-it-a-top-priority/.

an increase of 28 percent over the past two years, most Republican voters are opposed to the movement's calls for various forms of racial justice.[347] With the opposition among conservative political leaders and the relative ambivalence amongst Republican voters on issues of equality, the Democratic Party has significant work to do to convince both their colleagues and the electorate to take up the mantle of reform. It will in fact be vital to demonstrate to all voters that investing in social mobility is not a pipe dream, but a necessity which can be achieved by drawing on untapped sources of funding in the tax code.

The current federal tax code includes an imbalanced set of expenditures and low rates which privilege the wealthy to the detriment of the poor. To enact progressive policies, Congress must also enact a truly progressive tax code. As stated above, the mortgage interest tax deduction must be eliminated, significantly curtailed, or targeted towards low and middle income Americans, allowing the federal government to potentially recoup $60 billion annually in missed revenues. Given that most people feel that the wealthy do not pay their fair share in taxes, there is political will to enact higher rates on the highest earners.[348] It will be important to educate voters on the history of tax code as well, since most Americans are misinformed about how today's rates compare to those only four decades ago when the top earners paid nearly twice as much as they do today.[349] Returning to the 70% tax rate for income earned above $10 million would result in revenues ranging from nearly $300-$700 billion over the course of one decade.[350]

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[347] Nate Cohn and Kevin Quealy, "How Public Opinion Has Moved on Black Lives Matter," The New York Times (The New York Times, June 10, 2020), https://www.nytimes.com/interactive/2020/06/10/upshot/black-lives-matter-attitudes.html.

[348] Carroll Doherty, Jocelyn Kiley, and Nida Asheer, "In a Politically Polarized Era, Sharp Divides in Both Partisan Coalitions" (Pew Research Center , December 17, 2019), https://www.pewresearch.org/politics/2019/12/17/in-a-politically-polarized-era-sharp-divides-in-both-partisan-coalitions/, 90-91.

[349] Danielle Kurtzleben, "We Asked People What They Know About Taxes. See If You Know The Answers," NPR (National Public Radio, April 17, 2017), https://www.npr.org/2017/04/17/523960808/we-asked-people-what-they-know-about-taxes-see-if-you-know-the-answers; "Historical Highest Marginal Income Tax

Further sources of new revenue include increasing the capital gains tax rate. Adopting leading Democratic presidential candidate and former Vice President Joe Biden's plan, which would treat capital gains as ordinary income for those earning more than $1 million year, eliminate the step-up rule, and double the top-rate from 23.8 percent to 43.4 percent, would result in an additional $378-$500 billion in revenue over the next decade.[351] Finally, enacting a new inheritance tax to replace the anemic estate tax would strike at the core of the country's racialized social mobility, aided and abetted by intergenerational transfers of wealth. Currently the estate tax raises just over $15 billion in revenue annually; meaning inherited wealth is taxed at 1/7th the rate of typical income. By enacting a progressive inheritance tax that includes a lifetime exemption of $2.5 million, the government could conservatively raise $337 billion in the next decade. This figure would rise in accordance with lower exemption levels.[352] It is therefore well within the government's means to prioritize and pay for new and expanded programming which would serve low-income social mobility.

Sure, call me any ugly name you choose—
The steel of freedom does not stain.
From those who live like leeches on the people's lives,
We must take back our land again,
America!

Rates," Tax Policy Center, February 4, 2020, https://www.taxpolicycenter.org/statistics/historical-highest-marginal-income-tax-rates.

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In his final appeal of "Let America Be America Again," Hughes calls on the vulnerable and exploited to retake the land that belongs to them equally. Doing so requires holding the federal government accountable for policies which enabled the current racial and class disparities to grow unabated. The presently stratified society disempowers the vast majority of Americans and renders futile the promise of equal opportunity. Political leaders must reform outdated tax, welfare, and housing policies which disproportionately aid the wealthy while effecting little class mobility among the poor. And they must enact new policies which invest in the social mobility of low-income Americans and create new paths towards financial security and wealth, especially for people of color. Without federal leadership, there is no reason why race or household income will not continue to determine childrens' life courses into the future. As Hughes writes, the time is overdue to reclaim the country from those who live like leeches on the people's lives.

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Curriculum Vita

Julie McCabe was born in 1990 in Brooklyn, New York. She attended Bates College in Lewiston, Maine graduating in 2012 with a Bachelors of Arts in Women and Gender Studies. McCabe also minored in African-American Studies and Teacher Education. Since graduating from Bates College, she has taught in Maine schools for the past seven years. McCabe currently teaches both English and History at the middle school level. To further her teaching capacities and interest in politics, McCabe enrolled in the Masters of Arts in Government program at Johns Hopkins University. McCabe also received the United States Congressional James Madison Memorial Fellowship awarded to one Social Studies teacher from each state annually which aided her studies and provided the opportunity to take two summer courses along with her teaching peers at Georgetown University in 2017. As a culmination of her Johns Hopkins coursework, McCabe authored her Masters thesis with a focus on welfare and housing policy, two areas which she plans to pursue later in her career.